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# Diplomarbeit

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## The Canton System and the Great Divergence.

## Sino-British Trade ca. 1700 – 1800.


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# Introduction

Knowledge is a subject of transition. Its production, development and preservation are subject to the political, cultural and historical environment in which it is produced or preserved. Sometimes new information proves old knowledge wrong. Sometimes old knowledge is rediscovered. This subjection of knowledge to its actual and changing circumstances is clearly traceable in the history of Western knowledge and perception of Asia in the last 250 years. The *Great Divergence* is one of the most discussed and researched topics in the field of economic history today. The question of why the Industrial Revolution and modern self-sustained economic growth took place in Europe, or more specifically Great Britain, and not in Asia, or China, fascinates contemporary historians of various disciplines. The appearance of one of the most important developments in human history has been studied most intensively during the last two centuries. The nature of economics per se and of economic relations between states, or between East and West, fascinated those scholars who today are acknowledged as *classic economists*. Yet, differences in their texts about the historical development of East and West are caused by historical changes that took place, so to say, somewhere in between Adam Smith and Karl Marx. Smith wrote his most famous book in 1776, about the time the Industrial Revolution was beginning to gain momentum in Europe, however he still spoke of the superiority of an Asian continent over Europe, of its economic and cultural power; and the *riches of Asia*. He summarized:

"*The great extent of* [...] *China, the vast multitude of its inhabitants, the variety of climate, and consequently of productions in its different provinces* [...] *render the home market of that country of so great extent as to be alone sufficient to support very great manufactures. The home market of China is, perhaps, in extent not much inferior to the market of all the different countries of Europe put together. A more extensive foreign trade, however, which to this great home market added the foreign market of all the rest of the world* […] *could scarcely fail to increase very much the manufactures of China, and to improve very much the productive powers of its manufacturing industry.*"[1]

Smith was a child of his time. In 1793, the German historian Arnold Herrmann Ludwig Heeren wrote: "*Unter den drey Theilen der alten Welt ist keiner, der die Aufmerksamkeit des philosophischen Geschichtforschers* […] *mehr auf sich zöge und auch befriedigte, als*

[1] Adam *Smith*, *The Wealth of Nations,* Vol. 2 (New York 1954), 217.

*Asien.*“[2] In his 1754 *Merchant's Directory*, Wyndham Beawes describes Asia as “*one of the largest and richest Parts of the World*”[3]. His commentary about China is worthy of being presented in full:

“*Of the Trade of China: This vast Part of the Globe, and the easternmost of Asia, is equally famous for its Fertility, which furnishes in Abundance wherewith to maintain an extensive Commerce, and for the Genius of its Inhabitants, who, more than any other People of the World, understand to employ in all Sorts of Manufactures and Works the many rich Products that grow, and are found in the fifteen Provinces of this vast Empire; which is rendered more adapted to Trade than any other eastern Country, by the many Rivers and Canals that traverse all its Divisions, and thereby facilitate the Transport of its Merchandize; and for abroad, the good Ports, that six of its Provinces have, which are washed by the oriental Ocean.* […] *The Chinese Politics making them fear, that a Communication with Strangers might corrupt their Laws, never gave these latter any Opportunity to attack their Liberty under a Pretence of Trade; but for several thousand Years, shut the Entrance to their Kingdom against all Nations whatsoever, and were content with the interior Trade carried on among themselves; but at last the Emperor, having opened his Ports to all the World in 1685, the Indians and Europeans were equally forward to improve the Liberty of this new Trade, which they have carried on ever since.* […] *There is no Nation fitter for Trade and that understand it better than the Chinese, so that it lets Profit flip, which Commerce offers; trading in, and benefiting by all, with an admirable Dexterity and Skill, though not with that Fidelity, as is elsewhere regarded as the Soul of Trade; in one Word, the Chinese are spread in Asia, wherever there is any Thing to be got, with the Characteristic of Cheats, Usurers, faithless, full of Complaisance and Sublety to manage a good Opportunity, and all this under the Appearance of plain Dealing and Honesty, capable of deceiving the most attentive and suspicious; and they commonly say proverbially, that all other Nations are blind in respect of Trade, but themselves and the Dutch, which latter have one Eye, but they two. As it has always been a Maxim in the Chinese Government, to encourage a great Currency of Trade in all the Kingdom, it may be said that all the People concern themselves in it; here being hardly any of the Natives, even the Mandarins, who are not engaged in it, at least in Partnership with the Merchants to whom they advance their Money, that it may be increasing and not lie idle. One of the principal Branches of Commerce in China, as well at home as abroad, consists in Silk and Silk Stuffs, either plain or mixed with Gold and Silver, of which here is so*

[2] Cited in: Jürgen *Osterhammel*, Die Entzauberung Asiens. Europa und die asiatischen Reiche im 18. Jahrhundert (Beck'sche Reihe München 2010), 52.
[3] Wyndham *Beawes*, Lex Mercatoria Rediviva: Or, the Merchant's Directory (Dublin 1773), 639.

*great a Plenty that most of the People, and even Servants, commonly go clad in Sattin* [sic!] *or Damask.* […] *they are ignorant in the Manufacture of Cloth, though they have these brought here and, very much esteem them, more especially those from England, yet they buy but little, as the Cloths cost vastly more than the very finest Silks that can be made here.* […] *In Regard to the Merchandize proper for the Trade of China, Plate is as the Basis, whether in Dollars as they come from the Manillas, or in Bars as the Dutch bring them from Japan; the Chinese, who have none, esteeming it greatly, and willingly truck their Gold, and best Commodities against it. And whilst I am on this Subject, it will not be improper to remark, or unprofitable to my Reader, that in this Traffic, the Difference between Gold and Silver is computed as one to ten, whereas the Difference in Europe is as one to fifteen, so that great Advantages are made by carrying the latter thither.* […] *CANTON is the Port where all the Junks are loaded for abroad, and where they come to bring their Returns* […]. *THE Ships which annually arrive here from England, France, Portugal and Holland, commonly bring the following Goods, viz. Silver, in various Coins, all Sorts of fine Cloths, Camblets, Serges* [sic!] *and other Woollen Stuffs, fine Linens from Holland; Clocks and Watches, Locking-Glasses of all Sizes, Mathematical Instruments, English Etwees* [sic!], *Pencils, Paper of all Sorts, various Ornaments for both Sexes, some European Liquors, and especially Wine; of all which Commodities a good Part is distributed in Presents to the Mandarins in the Government of this Place, and the Merchants generally make a considerable Advantage of the rest. They employ the Silver they carry in the Purchase of diverse Sorts of Goods, in Virtue of certain Agreements made beforehand, which are raw Silk, Damasks, wrought according to Patterns given; plain Silks, lacquered Wares, Green and Bohea Tea,* […] *Canes and Porcelane after the Models and Paintings directed. They also sometimes buy Gold here, though but seldom as they have it much cheaper in India.*[4]

Beawes' fascinatingly broad and detailed description of the patterns of Sino-Western trade – only a part of which is shown in full here - gives on the one hand an insight into the existing knowledge during the mid-18th century about the economic relations between Europe and Asia. Continuing reading this paper and one will discover that it more or less exactly, rediscovers and confirms what Beawes told his readers more than 200 years ago. On the other hand, it gives an idea of the respect and estimation that Beawes and his contemporaries paid to China (and India). In *Industrious Revolution,* Jan de Vries argues that Asian goods such as tea, silk, porcelain and spices, that had been brought into European everyday life from the late 17th and early 18th centuries, founded and caused a European interest in Asia, especially in

[4] *Beawes*, Lex Mercatoria, 665-670.

China, that had not existed before. The period from 1750-1820, appears to be a golden age of early Asian Studies in Europe, characterised by a general fascination of a superior, or at least equally developed Chinese culture compared to that of Europe.[5] As Rousseau and Porter term it, "[…] *there was a moment of equilibrium in the eighteenth century. Europe and Asia were still finely balanced; the West was not yet exercising assured imperial sway over the great empires of the East* […]. *It was also a moment when, because of the power of Enlightenment pens, Europe itself was sufficiently self-critical and free from bigotry to be able to confront other cultures, admittedly not as equals, nor even necessarily on their own term, but at least as alternative versions of living – for a brief moment before the logic of the white man's mission required they be subordinated, eviscerated and destroyed.*"[6] Like Rousseau and Porter point out, the perception of Asia in Europe changed during the second half of the 18th century, and substantially between 1780 and 1830. The absence of political change in China was no longer seen as a sign of stability and sophisticated reign, but as static in contrast to a dynamic Europe.[7] With the emerging 19th century, the general Western perception of East and West shifted. As early as 1817, James Mill, father of John Stuart Mill, declared the Hindu agriculture as primitive.[8] The idealization of China ended with the emerging European, Smithian sciences of economy and rationality, which now interpreted Chinese granaries as "*market*[s] *distorting hoarding*" and the abundance in Indian palaces as "*profusion*".[9] "*Chinoiserie*" was replaced by a thesis of degeneration and stagnation, which itself was supported by political events, like the fall of the Moghul Empire in 1707, and several famine crises in China during the 18th century.[10] In the 1780s, an important Enlightenment philosopher, Johann Gottfried Herder, described the Chinese Economy as "*mechanical machinery of (Confucian) ethic*" and as living a "*life of hibernation*".[11] China was about to become more and more *disenchanted* (Jürgen Osterhammel, following Max Weber who himself borrowed the term from Friedrich Schiller).[12] At the turn of the century, a new fashion of interpreting the history of human cultures by "measuring" the *scale of civilizations* arose.[13] Now, scholars tried to define the grade of civilization compared to other cultures in history, with modern Europe being the *non plus ultra* of them all. Still, China was considered in the uppermost range of this scale, as one of the most developed cultures on earth. However, it was

[5] Compare: *Osterhammel*, Entzauberung Asiens, 20, 26.
[6] G.S. *Rousseau* and Roy *Porter*, (ed.), Exoticism in the Enlightenment. (Manchester 1990), 14.
[7] *Osterhammel*, Entzauberung Asiens, 382, 392.
[8] See: ibid, 383.
[9] Ibid, 384.
[10] See: ibid. 383.
[11] Ibid, 383, 389, 390, 392. My translation.
[12] See: Richard *Jenkins,* Disenchantment, Enchantment and Re-Enchantment: Max Weber at the Millennium, in: Max Weber Studies No.1 (2000), 11.
[13] See: *Osterhammel*, Entzauberung Asiens, 397.

"*under its present state of existence not likely to advance in any kind of improvement*" as John Barrow, member of the Macartney Embassy of 1793/94, stated in 1804.[14] Suffering of despotism and "*religious superstition*", Asia was denied the ability to develop modern (European) sciences, arts and rationality.[15] Thus, it became Europe's *duty* to bring civilization to the world. Asia had been the cradle of civilization, now Europe was enabled to pay back its duty and bring civilization back thither, as Henry Thomas Colebrook, EIC employee in India, student of Sanskrit and later co-founder of the Royal Asiatic Society, stated in 1823.[16] With Georg Wilhelm Friedrich Hegel's concept of "*Geschichtslosigkeit*", non-European, Asian cultures were increasingly denied an equal cultural and historical accomplishment.[17] Marx, however, writing approximately 70 years after Adam Smith and having experienced the worldwide political and economic changes of the Industrial Revolution, coined the term the '*Asiatic mode of production'* in 1859, describing it as "*the crudest form of civilized society in which the state is likewise developed*" for the first time, since John Stuart Mill had spoken of the "*Oriental Society*" in 1848.[18] Krader states: "*The prehistory of the theory of the Asiatic mode of production is found in the early capitalist period, as a part of the attempt of the writers and thinkers of that time to grasp their own history and comprehend their society*".[19]

Only slightly later, Max Weber deepened this picture of global history with his theory of the "*Protestant Ethic and the Spirit of Capitalism*", claiming that compared to Asia, Europe's ethic or moral was more likely to generate wealth due to its intrinsic superior rationality.[20] In the mid-nineteenth century, China had therefore become "*John Stuart Mill's archetypical stagnant society*".[21] During the period of imperialism, the *white man's burden* had redeemed the fascination of Asian cultures that had existed 100 years earlier "*and so, in the dramatic*

[14] Cited in *Osterhammel*, Entzauberung Asiens, 399.
[15] See: ibid, 401.
[16] See: ibid, 402.
[17] Ibid, 393.
[18] Lawrence *Krader*, The Asiatic Mode of Production. Sources, Development and Critique in the Writings of Karl Marx (Assen 1975), 2, 5, 301.
Certainly, one has to consider Marx' whole theory of the Capitalist mode of production to understand the concept of the Asiatic mode of production and read this thesis in context to Marx' complete works being a critique of capitalism and not a thesis of European superiority over Asia. Marx states that the Asiatic mode of production, based on villages and family structures, is the directly preceding stage of the capitalist mode of production, having existed in Europe, too (see: ibid, p. 310) He does not speak of cultural superiority or inferiority. Still, the consequences evolving out of his concept surely affected Asia-studies in East and West heavily and would stamp scholarship for more than a century. See e.g. the discussion about "Sprouts of Capitalism" in Maoist China or, too, famous studies like Mark Elvin's *Patterns of the Chinese Past* or Philip C. Huang's *Peasant Family and Rural Development in the Yangzi Delta*.
[19] Ibid., p. 6.
[20] See e.g.: Max *Weber*: Gesammelte Aufsätze zur Religionssoziologie (Vol. 1, Tübingen 1986), 34. There he says:
"Natürlich: des *modernen* Kapitalismus. Denn daß hier nur von diesem westeuropäisch-amerikanischem Kapitalismus die Rede ist, versteht sich angesichts der Fragestellung von selbst. »Kapitalismus« hat es in China, Indien, Babylon, in der Antike und im Mittelalter gegeben. *Aber eben jenes eigentümliche Ethos fehlte ihm, wie wir sehen werden*."
[21] *Rousseau* and *Porter*, Exoticism in the Enlightenment, 14.

*dynamics of the nineteenth century, the enclaves of the exotic were also there to be converted, civilised, modernised, and occasionally, exterminated*."[22]

Thus, it was only at the very end of the 18th, and during the following 19th century, when Europe outplayed China in real economic terms and the Asian hegemony in Eurasian history ended (for the moment), that European savants started to destruct and rebuild the perception of Asia. Marxist, Darwinist and Weberian ideas, coining terms like the *Asian Mode of Production*, *Asian Despotism* or *Protestant Ethics and Spirit of Capitalism*, put into words what had become the political and economic reality which, fostered a European sense of superiority. Interestingly, the scholarly astonishment had now turned around. Scholars were not puzzled anymore by why the East was richer than Europe and what they did better. Unlike the students of the 18th century, they were not fascinated anymore by the sophisticated and ideal reign in China, and the vast, abundant wealth of the Mughal Emperors. Instead, they were amazed by the Asian mismanagement and ignorance of why the East was poorer than Europe, and of what Europe did better. Asia had lost its attraction, its fascination, and had become a place that European scholars looked at with the conviction of cultural or racial superiority, caused by the developments their generations experienced. It was this change in history that changed the perception of Asia deeply and that changed Western knowledge about it, too. A lot of information that had been known before; for example Wyndham Beawes' incredible, nearly 800 pages long *Merchant's Directory* of 1754, reprinted various times and describing the patterns of trade on a *global* scale, was either forgotten or overrun by "*the logic of the white man's mission*",[23] which did not tolerate information that shed Asia in another light than that of backwardness, underdevelopment and inferiority. In fact, the broad description of trade routes, weights, commodities and prices, etc. that Beawes wrote in the mid-18th century, seems to be similar, if not parallel, to those descriptions of world trade by Frank (1998) or Findlay and O'Rourke (2007). Writing 250 years later, they only re-established what Beawes' generation already knew. But, as imperialism overran the world in political terms, it did overrun Western knowledge about the world, too.

It needed a new century, the devastating outcome of European imperialism, World War I, the end of the globe's oldest empire, the Heavenly Kingdom in 1911/12, in order to break with "*Eurocentrality*" in the minds of scholars and clear the way for a new generation of mostly Anglo-American students to turn eastward again. Modern China studies emerged at the beginning 20th century when the pre-Opium War history of China came into interest of

[22] *Rousseau* and *Porter*, Exoticism in the Enlightenment, 14.
[23] Ibid.

Western scholars, and remained, due to Maoist oppression of academics and non-Western standards of research, dominated by the West until at least the 1970s.[24] The first scholar of Chinese relations with the West and maybe the founder of modern China-Studies, Hosea Ballou Morse, started publishing his studies as early as in 1908, and finished his most important and still most useful work "*The Chronicles of the East India Company, Trading to China 1635-1834"* in 1929. Inspired by his work, Morse was followed by several great 20th century generation scholars like John King Fairbank, Michael Greenberg, Joseph Needham and Albert Feuerwerker, who pioneered the field of modern academic studies of Chinese history. Due to reasons mentioned above, those studies, though undoubtedly monumental, were mostly limited to sources of Western institutions, like that of the British East India Company (EIC). Thus, without the option to access Chinese sources, the studies remained one-sided by default. But still, "*scholars (including Needham himself) have used the experience of Western Europe as the yardstick against which to measure China's performance*."[25] Still, Marxist and Weberian ideas were heavily influencing Western Asia-studies. Great scholars of economic history, like Walt Rostow, David Landes, and a myriad of other scholars, who, as subjects to the historical chapter they lived in, mirrored what is called the *American Dream* in their studies. They focused predominantly on a Western-centred explanation of world economic history, concentrating on intra-European developments, preconditions and events like inventions of new technology, ideas, rights, institutions, culture etc. However, the idea of Chinese economic or technologic or *civilisation* predominance over Europe during most of the period between A.D. 1000 and, say, A.D. 1500 was bandied about by Mark Elvin, who explains it as a "*high level equilibrium trap*" (1973) or even earlier by Joseph Needham and his famous *question*. Philip C. Huang, who adopted Geertz's thesis of "*Involution*" (1990) rather painted pessimistic picture. So, only from the 1980s, and mostly after the "second opening" of China from 1976 onwards, has the ideological approach of Western students become less Eurocentric and the scientific focus shifted eastward. Since then, and especially in the last two decades, global economic history has risen and is gaining importance within the historical studies. We have achieved a new level of studying the emergence of the *Great Divergence*. Instead of only searching the roots and reasons of the Industrial Revolution within "Western" boundaries, a new, global perspective that represents actual political developments has been developed and continues to evolve. The new approach compares Asian economies with that of Europe, looking for the whole global picture, global

[24] Kent G. *Deng*, A Critical Survey of Recent Research in Chinese Economic History. In: Economic History Review Vol. 53 No. 1 (2000) 1-2.
[25] Kent *Deng*, Development and Its Deadlock in Imperial China, 221 B.C.–1840 A.D. In: Economic Development and Cultural Change Vol. 51 No. 2 (January 2003), 479.

relations, and an interconnected global economic system. Since then, the China-studies of Morse, Fairbank and others, have been connected with studies on the Industrial Revolution, and thereby, a bigger, global picture of economic history has been created. Among those students are, just to name a few, Kenneth Pomeranz, Andre Gunder Frank and Roy Bin Wong. As Pomeranz, Frank, Bin Wong and most other scholars agree upon; it was somewhere between 1750 and1800 or 1850 that Europe surpassed global Chinese economic dominance.[26] Since the Canton System also existed during that same period most authors assume it to be crucial for the diverging of Eurasian economies. It is striking that there is no work (to my knowledge) that directly connects the great macro-stories told by Frank, Pomeranz and Wallerstein with detailed, micro-historical examinations. I find it striking that China's fall from its global hegemonic position coincided with the first direct and regular establishment of economic transactions with Europe that world history has seen. Since the last years have brought about a much more global approach to interpret and explain why the Industrial Revolution happened in Europe, I think there is a crucial need in the field to accept a more global approach to explain why it did not develop in China. Frank, Pomeranz and others have concentrated on comparing both ends of Eurasia to determine what differences existed and if there might have been a reason for the diverging development. Certainly, this was an important cornerstone of research. However, I believe the next important step is to observe what we today would call *international relations* since

"[…] *the various regions of the world did not develop in isolation, but profoundly influenced each other, through trade, war, missionary activity, and a host of other channels. Explanations that treat each region as if it were an island, with a set of characteristics evolving in isolation from the others, miss a large part of the picture. Europe's links with the rest of the world were crucial in explaining its own development* […]."[27]

And so, by implication, those links were crucial in explaining the development of the rest of the world! Of course there are various interpretations of China's history that neglect or ignore foreign trade. Mark Elvin's *high level equilibrium trap* and Philip Huang's thesis of *Involution* are the most prominent examples, which from a Marxist point of view, both concentrate on relations of production. Contrary to Robert Marks, both Elvin and Huang do not see foreign stimulation as a factor able to break the regime of cheap human labour and petty production, preventing innovation or self-sustained, modern growth. However, Findlay and O'Rourke conclude: "*While the origins of the Industrial Revolution were inextricably*

[26] See especially Kenneth *Pomeranz*, The Great Divergence. China, Europe and the Making of the Modern World Economy (Princeton/ Oxford 2000), Part One, 29-108; and Andre Gunder *Frank*, ReOrient. Global Economy in the Asian Age (Berkeley/ Los Angeles/ London 1998), 185.

[27] Ronald *Findlay* and Kevin H. *O'Rourke*, Power and Plenty. Trade, War, and the World Economy in the Second Millenium (Princeton and Oxford 2007) 358.

*linked with the centuries-old development of the international economy* […], *it would in turn go on to revolutionize the international trading system* […].[28] It is this statement that explicitly brings to the point what will be argued subsequently. A part of the explanation of the *Great Divergence* lies, in my point of view, in the global patterns of exchange, evolving prior to and throwing Europe into what Eric J. Hobsbawm has called the *Age of Revolution*.[29] It was not *surprising resemblances* and equilibriums that caused changing global divisions of power, it was actions, and an interesting part of those actions took place in Canton! If the differences between England and parts of China really were that small, observing the international interactions existing during this time in detail, might give us an explanation of why it was England, and not China, who built the steam engine. For this purpose and to contribute an answer to this great, global discussion, this thesis will be about Sino-British commerce during the 18th and early 19th centuries. This was the time of what Paul van Dyke has called the *Canton System*, a system of commercial exchange ruled by monopolists on both ends of Eurasia, the EIC, and the Hong merchants confining to Canton. The aim of the following pages, using a deductive approach, is to observe how this intercultural trade emerged and developed throughout the period observed, and what effects it had on the Chinese economy and society. How was it conducted, what were its mechanisms, limits and consequences? Since it was limited to Canton, did it have any meaning to China's overall economy, or at least a regional part of it? Various studies about the Asian trade about tea, silk and chinaware have discussed the importance of those commodities and the trade of them on Europe. However, the importance of this trade on China has not yet been studied in great detail, or, considered the proportions of Europe and China's economies; was rather neglected. Therefore, this thesis will connect a detail study of the Canton trade with broader global events of that time, as well as with events within the Chinese empire in order to show that the Europe trade did have serious and most important effects on the Heavenly Empire. Thus, the main question answered here will be: Did the Canton trade contribute to the phenomenon of the *Great Divergence*? The answer will be: "Yes!"

[28] *Findlay* and *O'Rourke*, Power and Plenty, 364.
[29] See e.g. Jürgen *Osterhammel*, Die Verwandlung der Welt. Eine Geschichte des 19. Jahrhunderts (5. durchgesehene Auflage München 2010), 89.

# I. The Canton Tade ca. 1700 – ca. 1800: Control, Credit, and Contraband

## 1. The Silver Circle

### 1.1 British-China Trade before 1700

British attempts to open direct trade with China can be dated back to 1596, when the first English ships were sent to China to ask for trading privileges.[30] After the English East India Company was founded and granted a monopoly for the trade with Asia in 1600, English efforts to create trade began. The "struggle for control of the China trade"[31] between the English, French and Dutch trading companies would shape Eurasian trade for the next two centuries. After various, rather poor attempts to establish trading ports in Japan and Macao during the first four decades of the seventeenth century had failed due to Dutch dominance in today's Indonesia, and Portuguese resistance had forbidden English merchants to conduct trade in Macao, the mid-17th century political situations in both England (Civil War) and China (Ming-Qing transition) caused the EIC's to open direct trade with China to lay more or less fallow.[32] During these years, the EIC's poor performance in East Asia caused her heavy financial trouble. The company was close to dissolution, and even though she managed to keep control over Madras, Surat and Bantam, her "*attempts at creating a direct commercial link with China […] was a complete fail in the first three quarters of the seventeenth century*."[33] It required various efforts from the mid-17th century onwards to make the EIC a serious player in the trade with East Asia. The transformation into a joint-stock company in 1657, enabled her to accumulate the working capital to seriously enter the trading system of East Asia.[34] Following, the passing of several Navigation Acts in England during the 1650s and 1660s, and the fighting of three wars between 1652 and 1674, challenging Dutch primacy in world trade, the English Company had the political support to compete with the Dutch company's (VOC) dominance in East Asia. After the accession to the English throne of William of Orange in 1688, the national combat between England and Holland ceased, and France was replacing Holland as England's major opponent.[35] Still, the EIC was not able to

[30] Simon Yang-Chien *Tsai*, Trading for Tea: A Study of the English East India Company's Tea Trade with China and the Related Financial Issues, 1760-1833 (Thesis submitted for the Degree of Doctor of Philosophy at the University of Leicester 2003), 35.
[31] Earl H. *Pritchard*, The Struggle for Control of the China Trade during the Eighteenth Century. In: Pacific Historical Review Vol. 3 No. 3 (Sep. 1934).
[32] *Tsai*, Trading for Tea, 36.
[33] Ibid, 40, also 29.
[34] Ibid, 29.
[35] See *Findlay* and *O'Rourke*, Power and Plenty, 227- 247.

successfully establish enduring factories east of Java. Efforts to gain Canton as a trading port were unsuccessful in 1673, and again ten years later. Though attempts were successful in establishing diplomatic and commercial relations with a Ming-loyal controlling Taiwan (Formosa) and parts of coastal China around Amoy in 1672, the EIC lost both ports again until 1681 due to Qing's capture. Additionally, Bantam was lost to the VOC in 1682.[36] After Ch'ing had completed the expansion in China and secured their reign, some ports were re-opened, and foreign trade was allowed. Only after 1684, were the English able to establish a direct trade that had any prospect of becoming regular and stable.[37] By the following year, the English were able to open trade in Amoy and Canton, where a factory was set up for the first time in 1699.[38] Thus, it took nearly a century for the English to open direct trade with China. The beginning of what would finally become a very successful business was only possible due to the Qing permission for foreigners to come to China.

## 1.2 1700 - 1736: The Establishment of the Canton System

By the 1690s, China had opened some doors for foreign trade, namely Canton, Amoy and Ningpo, and trade had developed some regularity.[39] Though the European Companies were keen to establish trade factories in every location and ships were initially sent to all ports in order to achieve this, Canton quickly emerged as the best adapted and the most convenient place to conduct trade for all actors Firstly, the Canton authorities had 150 years of experience of dealing with European foreigners due to the city's control over what has been called the "Macao System". Chinese linguists, with the ability to speak Portuguese and mediate between the newly arrived English and French, were readily available. Secondly, due to its geographical position on the Pearl River, Canton was the best suited for not only controlling the ships coming and going but also to ensure the protection of foreign ships from monsoons. The former, was the Ch'ing's fundamental condition for allowing foreigners into their ports. Thirdly, Canton, and not Macao, was the region's central market. Fourthly, Canton was, unlike Amoy (Xiamen) and Ningpo (Chusan), a major inland port with good access to its hinterlands and inland trade networks, thus having a considerable locational advantage over

[36] For short accounts of the EIC's early attempts on the China coast see: *Tsai*, Trading for Tea, 39-43; Hosea Ballou *Morse*, Britain and the China Trade 1635-1842. The Chronicles of the East India Company Trading to China 1635-1834 Vol. 1 (London/ New York reprinted edition 2000), 3-13; Paul A. *van Dyke*, Port Canton and the Pearl River Delta, 1690-1840 Vol. I. (Dissertation presented to the Faculty of the Graduate School, University of Southern California, Los Angeles 2002) 4-6.
[37] *Tsai*, Trading for Tea, 42.
[38] Ibid, 43. In fact, this factory was founded by the second English company. Both merged in 1708.
[39] *van Dyke*, Port Canton, 5.

the other ports.[40] Still, this advantage had to be recognized by foreigners. Between 1700 and 1710, out of 34 ships listed as sailing to China for the English companies, eight went to Amoy, thirteen to Chusan, and another thirteen sailed to Canton. By 1704 or 1705, Canton had become the preferred port of the supercargoes due to its good trading environment and was welcoming one or two English ships per year. From 1710 to 1735, Morse lists no EIC ship going to a destination other than Canton at all.[41] Furthermore, the EIC's concentration on Canton might have been fostered by an incident at Amoy in 1715, in which the private ship *Anne* was driven out of the port by force of arms.[42] However, this event only confirmed the British efforts. Canton did provide a "*unique trading environment*"[43] for both Europeans and Chinese to the extent, that by 1710 nearly all trade took place in this port.[44] The growing number of arriving ships matches the following situation; before 1714, the EIC had sent one or two ships per year, until 1720 when a total of 49 EIC ships visited China.[45] Canton remained unchallenged until the mid-1730s. Nevertheless, Europeans continued to complain about the existing limitations and control mechanisms, as well as the taxes and duties imposed by Chinese officials. This initial balancing act between Beijing's and European interests, to let trade grow while keeping it under tight limits, would be a continual problem the Canton System had to deal with for its entire 140 years of existence. To meet the interests of both parties and to set up trading conditions acceptable for all participants, the first thirty years of the Canton System can be described as "try outs".

Maintaining and ensuring Chinese authority and avoiding any political struggles with foreigners, were the absolute preconditions for trade taking place at all. The Ch'ing government demanded that foreigners were closely monitored and limited during their stay in China. Therefore, a tight network of supervision and tactics of control had to be maintained and adapted to the newly arriving maritime merchants. Due to this, foreign merchants were under permanent surveillance soon after they entered Chinese waters and arrived in Portuguese Macao. The Chinese's first tactic of control was to adapt an established network of forts and customhouses between Macao and Canton to respond to the new challenges the foreigners brought. Thus, European ships had to stop in Macao and were forbidden to enter the Pearl River unless all negotiations concerning trade had been concluded. Terms of trade

[40] See: *Van Dyke*, Port Canton, 6-13; *Morse*, Chronicles Vol. I, 146f.
Fairbank, coining the term "Macao System", points out that the idea of „quarantaining" foreigners was already applied to Arabian and other merchants trading in Canton before Europeans arrived. See: John King *Fairbank* and T.S. *Têng*, On the Ch'ing Tributary System. In: Harvard Journal of Asiatic Studies Vol. 6 No. 2 (Jun. 1941), 178. See also*:* J.K. *Fairbank*, Tributary Trade and China's Relations with the West. In: The Far Eastern Quarterly Vol. 1 No. 2 (Feb. 1942), 138.
[41] *Morse*, Chronicles Vol. I, 148 and "Table of English Ships which trade to China for the East India Companies, from 1635 to 1753." 308f.
[42] Ibid, 150f.
[43] *van Dyke*, Port Canton, 14.
[44] *Pritchard*, Struggle for the China Trade, 281.
[45] Ibid, 281; *van Dyke*, Port Canton, 16

had to be negotiated for every single ship separately and again every year. Sometimes English supercargoes competed against each other for goods, thus driving prices up.[46] To prevent this, the two English companies established a *Court of Managers for the Joint Trade* in London in 1702, and instructed their officers to not compete with each other.[47] However, the then united English Company did not establish a council of supercargoes until 1715/1716.[48] Still, the ships were to trade separately from each other with supercargoes being directed to communicate about contracts and transactions.[49] With growing regularity and the establishment of this EIC agency in Canton, the practise of negotiating trade in Macao ceased. Since foreigners returning to Canton in the next season usually demanded – and were mostly allowed - the same rights and freedoms they had been granted the year before, the basic terms of trade were already worked out by 1704.[50] However, foreigners had to apply for a Chinese pilot in Macao to guide them upriver to Bocca Tigris. The pilot himself then applied at the Pilot Bureau in Macao to be allowed to serve the foreigners, and had to document the name of the foreign captain in charge of the ship, the country he represented, the account of the ship's armament, the size of the crew and the cargo. This information was then forwarded to Canton Customs to be registered. When the pilot received permission to guide the ship, they proceeded upriver to Bocca Tigris, where custom officials, ensuring that all given information was correct, controlled the ships. If so, a report of those officials was again forwarded to Canton and the foreign ship received permission to go further upriver, called the "Grand Chop".[51] Before the ship left Bocca Tigris, two Chinese officers went aboard to control the foreigners during their passage to Whampoa and to ensure that no goods were loaded or unloaded along the way. There were no tolls between Bocca Tigris and Whampoa, which was the last station foreign ships were allowed to go. In Whampoa, the Hoppo or his representatives undertook the measuring of all ships, the basic means of taxation, and trade negotiations concerning port fees, personal rights, etc. During the first years, those activities were performed by the Hoppo himself, and were accompanied by various ceremonies welcoming the foreigners. After the trade terms were negotiated, cargoes were unloaded into smaller sampans, owned by Hong merchants, to carry them to Canton. On this final part of the route, there were three tollhouses, each controlling and chopping the Grand Chop and collecting custom duties. At the third tollhouse, the main station directly at the Canton quay,

[46] See *van Dyke*, Port Canton, 6-1; *Tsai*, Trading for Tea, 43.
[47] *Morse*, Chronicles Vol. I, 146.
[48] *Tsai,* Trading for Tea, 44. See especially Footnote 91. See additionally *Morse*, Chronicles Vol. I, 154.
[49] *Morse*, Chronicles Vol. I, 155.
[50] *van Dyke*, Port Canton, 22f.
[51] Ibid. 33.

import and export taxes as well as port duties etc. were collected. [52] When English company merchants arrived in Canton in 1699 on the *Macclesfield* and tried to do trade, they were subject to several attempts of dishonesty by Chinese officials and merchants, trying to get as much as possible out of the foreigners.[53] However, as mentioned earlier, it was not until 1704 when one or two ships came to Canton each year, and the basic features of taxes and duties had been established. Three basic fees Chinese authorities demanded had become known and accepted by foreigners. First, a certain fee had to be paid for every ship arriving in Canton. This duty was defined by the ship's size. The length and width of the ship were measured and the ship was classified in one of three categories of size according to which the fee was defined. Second, there were taxes to be paid for imported and exported goods according to their weight. A certain tax amount per picul was imposed on every traded good, so the basic taxes were not directly defined *ad valorum*, as van Dyke points out.[54] However, when trade became more regular, Chinese officials realized its potential source of income and several other taxes were introduced. By 1703, a three per cent *ad valorum* tax was imposed on sales and purchased articles. It was raised to four per cent in 1704 and again to six per cent around 1718.[55] In this year, the "Emperor's Present", a fixed tax of 1950 taels, was established and collected for every English ship.[56] The increasing tax burdens invoked everlasting protest and resistance among foreign merchants who tried to avoid paying taxes as often as they could. Thus, even though foreigners were monitored very closely, the Hoppo, being the supervisor of foreign trade, seem to have encountered problems collecting his revenues.[57] Furthermore, the welcoming ceremonies provided by the government grew impractical with the growing numbers of arriving foreign ships. Consequently, Chinese authorities were searching for a way to outsource the control of foreigners, the collection of taxes and the negotiations concerning trade and to establish a private institution for this purpose. This struggle to rationalize state efforts met Qing's concerns about security and the prevailing of harmony. Since foreigners in general were forbidden to contact the Chinese population, a certain group of merchants was formed to deal with Europeans coming to Canton. Such a group did not exist when the Englishmen first arrived in Canton at the beginning of the 1680s. Nevertheless, by 1685, the group of "*Ya-hang*", an existing group of brokers between Chinese inland and maritime merchants, was appointed to conduct foreign trade. In the following year, this group

[52] For the process of sailing to Canton see: *van Dyke*, Port Canton, 22-39.
[53] See *Morse*, Chronicles Vol. I, 91-99.
[54] For Chinese taxes on foreign trade in Canton see: *van Dyke*, Port Canton, 16f.
[55] Tsai, Trading for Tea, 50. See also: *Morse*, Chronicles Vol. I, 140.
[56] The amount of this tax varied slightly according to the countries the ships came from. See *van Dyke*, Port Canton, 77; James B. *Eames*, The English in China: being an account of the intercourse and relations between England and China from the year 1600 to the year 1843 and a summary of later developments (London [1909] 1974), 71. van Dyke dates the establishment of this tax into the 1720s, Morse does not mention the tax for the year 1718.
[57] Tsai, Trading for Tea, 48.

was divided into "*Yang-huo-hang*", who were responsible for trade with foreigners, and "*Chin-ssu-hang*", who were to deal with Chinese merchants.[58] Thus, the institution foreigners knew by the name of *Hong Merchants* was formed by the Chinese government shortly after trade with Europeans started. With the Canton System emerging and expanding in the first two decades of the 18th century, the Hong's tasks expanded, too. Chinese officials decided to "privatize" the administration of trade and the collection of fees etc., passing them to the Hong merchants and making them the general institution responsible for foreigners. At the same time, the English company officials tried to find a way to avoid the long lasting and complicated negotiations with Chinese officials, which often delayed the British ships' departure. To leave Canton before the monsoon changed was a crucial necessity for Europeans, since they otherwise had to lay-over for six months, which again raised costs and was highly undesired.[59] Searching for protection against governmental efforts and wishing to ease trade, they found the Hong merchants to be a convenient solution. Hence, in 1716, the British supercargo's contracts with Linqua and Anqua proposed an agreement that the Chinese merchants would protect foreigners against extortion efforts by the Hoppo and the introduction of new taxes "*at their own* expense [*sic*!]".[60] So, the newly appointed "Security Merchants" had to secure the interests of both government and foreigners. They had to guarantee the payment of all duties connected with trade, pay out debts if foreigners failed to pay all taxes and warrant for the behaviour and subordination of foreigners residing in Canton to Chinese laws. This way, the state ensured its demanded taxes would be paid and foreigners avoided delays due to government negotiations.[61] The Hong merchants themselves usually included taxes and port fees in their trading contracts with foreigners. So, after foreigners had arrived at Whampoa, Chinese authorities stopped controlling them directly. From this point on, private merchants, licensed by the state and thus under its tight control, took over responsibility and surveillance efforts. Since Hongs owned the sampans, carrying goods from European ships to Canton and *vice versa*, they now took over responsibility for goods and foreigners transported. Thus, one or a group of Hong merchants was appointed "Security Merchant" to each ship arriving at Canton. However, foreigners demanded the freedom to independently choose this merchant from the very beginning of this custom. Chinese officials granted this to preserve competition among Chinese merchants and to prevent monopolies, through which their market dominance might have discouraged foreigners to come back by

[58] *Tsai,* Trading for Tea, 45. "yang" means "oceanic", "huo" commodities and "hang" or "hong" means "business" in Cantonese.
[59] See *van Dyke*, Port Canton, 7f.
[60] *Morse*, Chronicles Vol. I, 156.
[61] *Tsai,* Trading for Tea, 48. See also: Zhuang *Guotu,* Tea, Silver, Opium and War: The International Tea Trade and Western Commercial Expansion into China in 1740-1840 (Xiamen 1994), 7f ; P. A. *van Dyke*, Merchants of Canton and Macao. Politics and Strategies in Eighteenth-century Chinese trade (Hong Kong/ London 2011), 9.

fixing and demanding unacceptable prices.[62] As a reward for taking the responsibility for the foreign merchants, the Hongs usually demanded a monopoly or the largest share of trade with the ships they secured.[63] Between 1700 and 1760, there were between six and 30 Hong merchants active in any given year.[64] Usually, in order to reduce risks, the EIC did not sell all the cargo to one Hong. In the first years, single Hongs were not granted monopoly on more than half of a ship's cargo. Later, the Company sold fractions to various merchants according to the share of ships a Hong secured. To elaborate, if a Hong secured two ships out of 16 English ships arriving in Canton, he would be allowed one-eighth of all cargo.[65] This basic structure of trading conditions was worked out in the very beginning of the 1700s, and was to some extent customary by the mid or late 1720s. Trade had become fairly stable and regular, and remained largely unchanged until 1842. [66]

From 1720, English ships no longer traded separately from each other instead the traded commodities were put together into one EIC pool, out of which fractions were sold to the Hongs.[67] The system of Security Merchants can be traced back to 1703, when the EIC ships predominantly traded with one merchant's house they continued to do this for approximately ten years and in so doing expanded this procedure.[68] It was customary in the 1720s, and became officially compulsory from 1736 onwards.[69] This system became increasingly established and was proving itself suitable for Chinese authorities. Consequently the Chinese authorities slowly withdrew their direct engagement in controlling and negotiating with foreigners.[70] Paul van Dyke mentions that this custom of security merchants – the backbone of the Canton System – might have developed out of a private initiative, rather than out of official efforts, assuming that continuing connections between the trading companies and only one or one house of merchants helped to stabilize and develop regularity for trade and to keep prices low.[71] However, in his most recent book, he addresses the government's interest to minimalize costs, while Simon Tsai shows that this practice enabled Chinese officials to ensure the collection of revenues with "*the minimum of difficulty*".[72] Thus, we still do not know which party really initiated the system of Security Merchants, but it seems likely that it was a convenient compromise for both foreigners and mandarins to rationalize and regularize

[62] *van Dyke*, Port Canton, 23.
[63] *van Dyke*, Merchants of Canton and Macao, 18.
[64] Ibid, 9.
[65] See ibid, 22-24.
[66] Compare: *van Dyke*, Port Canton, 16, 18, 27; *Eames*, The English in China, 59, 64; *Pritchard*, Struggle for Control of the China Trade, 281.
[67] *Morse*, Chronicles Vol. I, 161.
[68] *van Dyke*, Port Canton,18; *Morse*, Chronicles Vol. I, 139.
[69] *Tsai,* Trading for Tea, 49.
[70] *van Dyke*, Port Canton, 53f.
[71] *van Dyke*, Port Canton, 20.
[72] *van Dyke*, Merchants, 8-9; *Tsai*, Trading for Tea, 49f.

trade, and for the Hongs to ensure their share of trade. It enabled official efforts to "outsource" direct government involvement to decrease costs. Furthermore, it institutionalized personal connections between European and Chinese traders and consequently facilitated the development of trust, which brought further stability, regularity and reliability. However, whenever there were disputes between Hongs and European merchants about anything like damaged ware, unpaid bills, duties or contracts, Chinese officials made Hong merchants liable. Since it was of interest for officials to encourage Europeans to come back in the next trading season, they would usually make the Hongs settle any duty in question, pay for any damage mentioned by foreigners or repay any loan, rather than to turn on foreigners and maybe affront or exacerbate them.[73] Consequently, the Hong often became victims of official extortion and exploitation.[74] This surely gave foreign merchants a considerable advantage and leverage in negotiations. Being subject to this, merchants involved in trade with foreigners tried to monopolize this trade from the very beginning in order to reduce their risks and increase profits through price control. Four merchants, known to the English by the name of "the Mandarin's Merchants", who likely had paid officials to gain a monopolistic position, dominated the trade with the Macclesfield in 1699/1700.[75] In 1703, three parties of whom two, Linqua and Anqua, would become the English's main trading partners until 1720, paid the Hoppo to be granted a monopoly and were able to push it through.[76] In 1704, Linqua told the supercargoes that one merchant had paid a considerable amount of money to the court in Beijing for the trade monopoly and this very merchant was trying to enforce his patent. [77] Due to this merchant's lack of means to supply European ships with enough goods, the supercargoes contracted trade with Linqua and Anqua, who after some negotiations with the Hoppo, had to pay a certain fee to the monopolist to be allowed to trade.[78] In the following years, Linqua and Anqua seem to have established themselves as the dominant merchants for the English company traders. They were likely able to form a duopoly, or a leading group of merchants under their presidency during the second half of the 1710s, but the English heavily tried to undergo the duopoly's position by enforcing trade with other merchants.[79] An example is Tan Suqua, also known as Cumshaw, with whom the EIC traded in porcelain by 1716,[80] and who would become one of the most important merchants of the 1720s. In turn, the duopoly answered aggressively. In 1719, Anqua went to Beijing and was appointed an

[73] See *van Dyke*, Merchants of Canton and Macao, 9, 21f.; *Guotu,* Tea, Silver, Opium and War, 33-38, *Tsai,* Trading for Tea, 50.
[74] *Guotu,* Tea, Silver, Opium and War, 35.
[75] *Morse*, Chronicles Vol. I, 100-102.
[76] Ibid, 102.
[77] Ibid, 137.
[78] *Morse*, Chronicles Vol. I, 141.
[79] Ibid, 144f., 158; Weng Eang *Cheong*, The Hong Merchants of Canton. Chinese Merchants in Sino-Western Trade, 1684-1798 (Nordic Institute of Asian Studies Monograph Series No 70, Richmond 1997), 35.
[80] *Morse*, Chronicles Vol. I, 156; *van Dyke*, Merchants of Canton and Macao, Appendix 5A, 292f.; *Cheong*, Hong Merchants of Canton, 35.

*Emperor's Merchant*, licensed to monopolise trade.[81] The sources do not clearly document if it was Anqua alone who made efforts to monopolize the trade, or if Linqua was a part of this business too. However, Linqua died in August 1720, assumingly leaving Anqua the dominant merchant of Canton.[82] An official monopoly called *Co-Hong* was then established for the first time on December 25, 1720.[83] The fact that the Co-Hong was founded immediately after Anqua tried to introduce a monopoly, suggests that his efforts at the Court might have been successful. But none of the sources mentions Anqua again after his voyage to Beijing. A more intensive investigation indicates a quite different picture. First, as mentioned, Anqua's name disappears after 1720. Second, the thirteen terms of the new merchant's guild all express the guild's willingness to remain and ensure competition among the merchants. They define that "*the gild members will therefore meet together with the foreigners and agree upon prices; and any member acting independently will be punished*", and "*Should a foreign ship prefer to select one merchant to deal with, he may do one-half of the ship's trade, but the other half is to be divided among the gild members. Any one engrossing the whole trade of a ship shall be punished*."[84] Third, trading documents prove that merchants other than Anqua traded actively with foreign merchants in 1720 and 1721,[85] however, this is insufficient evidence as it could have been contraband trade, too. Nevertheless, it provides a further hint of Anqua's monopoly. Fourth, Tsai explains that the Hong merchants "*united* themselves *into a corporate body*"[86] and that they were not a group licensed by Court. Finally, there seem to have been no considerable price increases between 1719 and 1721, with the average tea purchase prices fluctuating between £0.08 and £0.10 per lb. with a declining rather than rising tendency.[87] Thus, having considered all the given evidence, the impression arises that this first formation of the Co-Hong was a protective mean by the merchant community against the establishment of a monopoly by a single Hong. By joining together in an association with basic agreements to ensure competition, the Hong actors were able to outplay Anqua and to secure the established system. Thus, it seems very likely to consider the 1720 Co-Hong as a mean to remain and preserve competition rather than to establish a monopoly. Indeed, the EIC supercargoes did not recognize this and misinterpreted the Hong's efforts as an act to gain market and price control. Thus, they heavily complained against the foundation of the Co-Hong to the Hoppo, threatening to withdraw from Canton, eventually supported by Tan Suqua

[81] *Morse*, Chronicles Vol. I, 160; *Cheong*, Hong Merchants of Canton, 35.
[82] *Morse*, Chronicles Vol. I, 163.
[83] *Tsai,* Trading for Tea, 48; *Morse*, Chronicles Vol. I, 163; *Guotu,* Tea, Silver, Opium and War, 31. Tsai mentions that the term Co-Hong was not yet used for the 1720 merchant's formation and only established in 1760. See *Tsai*, Trading for Tea, 59 Footnote 152.
[84] *Morse*, Chronicles Vol. I, 164.
[85] *van Dyke*, Merchants of Canton and Macao, Appendix 5A 293; 11A 398; 12A 419.
[86] *Tsai,* Trading for Tea, 98.
[87] Kirti N. *Chaudhuri*, The Trading World of Asia and the English East India Company 1660-1760 (Cambridge 1978), 388.

and Cudgin who assumingly were merchants outside the gild. Their complaints being successful, the Co-Hong was eliminated by the Hoppo in 1721. [88] Their engagement in the elimination of the Co-Hong seems to have given Suqua and Cudgin considerable credit with the EIC. In the following years up to 1731, Suqua became a big player in the Canton business supplying the lion's share of the tea and silk trade with the English company, while being heavily engaged in trade with the French and Ostend, as well as with the Dutch, Swedish and Danish companies after their arrival. Still, he was not able to dictate the prices.[89] When in 1726 a ten per cent tax for silver imports was introduced by the Canton Hoppo, the Ostend Company (GIC) immediately made efforts to undergo this new imposition by trying to convince Suqua and Tan Hunqua, Sunqua's main rival and second important merchant at that time, to conduct trade in Amoy. When the plan came into Hoppo's knowledge, he threatened Suqua and his family with punishment, thus discouraging the GIC's intrigue.[90] Hence, when the EIC ships arrived in 1727, hearing of the new tax, they also started similar efforts as the Ostenders had pursued the year before, but "*Suqua resisted all* […] *persuasions to go to Amoy*, […] *so too did Ton Hunqua*, […] *so too* [did] *all the other merchants who were approached* […]."[91]

Thus, as late as 1730, not only had the basic conditions of the Canton System been worked out, but so had the personal connections. A substantial competitive element about trade and the Canton market also occurred among both Europeans and Chinese. The growing numbers of trade and growing demand from about 1720 onwards, caused the development of new problems. Now that the political circumstances of the System had been fairly worked out, economic problems of supply and demand became the central worry for all merchants. Sending a ship to China was a very expensive business and thus European companies needed to ensure that their demand for goods would be covered. Sailing home without full return cargo or staying over in Canton or Macao during off-season, would seriously increase costs and harm profits. In any case, considering that tea has a short life span being a highly perishable product, the primary producers of tea could not just increase their production. The EIC regarded the British market for tea as inelastic, assuming that a greater supply would lower the price unless it was absorbed by greater demand. Furthermore, transportation costs still contributed to about 30 to 40 per cent of the prime costs of tea around 1790-1830,[92] while

[88] *Morse*, Chronicles Vol. I, 167; *Tsai,* Trading for Tea, 49. See also*: Eames*, The English in China, 64-68.
[89] *van Dyke*, Merchants of Canton and Macao, 80-84.
[90] Ibid, 81f.
[91] *Morse*, Chronicles Vol. I, 183.
[92] Robert *Gardella*, Harvesting Mountains. Fujian and the China tea trade, 1757 – 1937 (Berkeley 1994) 38; *Tsai,* Trading for Tea, 111f.

the size and tonnage of British ships had on average doubled or almost tripled since 1700.[93] The EIC cogently needed to prevent such a collapse of prices to ensure its profits. Therefore, EIC supercargoes would only buy as much as to satisfy demand. In turn, Chinese producers had to be assured that there was a demand for increased production and that they would be able to sell their product. For Hong merchants however, it was very problematic to just purchase a quantity of tea from inland regions before foreign ships arrived since they never knew how many would come and how large the demand would be. The Hong lacked information about European businesses and events.[94] Second, since tea had to be transported from inland China, mostly from the Fujian province about 1000 kilometres away, it took about four to eight weeks for the delivery to reach Canton.[95] The foreigners needed to avoid the monsoon season, as it was very unpleasant and costly for them to wait two months for their rebound cargo. So, the easiest way to enable and facilitate a short turnover time and to meet foreign demand was to contract for and buy up the next season's production. Further, the growing European hunger for tea, was driving up the orders in Canton, it soon grew too large for the Hongs to cover the production costs out of their own accounts. Thus, foreign merchants had to order the amount of goods they were willing to purchase in the next year. They began to advance, often in instalments, a part or even the complete capital needed to assure the production of tea and silk and their delivery to Canton.[96] The Hongs themselves then sent the given advancements via inland brokers to the tea suppliers and contracted delivery of the demanded amounts of, tea for example, which had become equally as desired as silk by 1720.[97] Only these advancements, being a one-year credit to be settled in commodities, enabled inland tea and silk producers to supply European demand and ensured that the European companies trading endeavours would be profitable. It is likely that competition among European companies fostered the development of pre-contracting the next season's trade considerably. But for these years, the GIC was successful in purchasing tea from Tan Suqua, thus causing the EIC sensible business an unpleasantness to the extent that advancing and contracting efforts were amplified in 1721.[98] Furthermore, since the Hongs never knew how many European ships would arrive the next year, these contracted advancements gave them the option to plan business and to ensure their share of trade. Usually, the foreigners deposited a fraction of the total contracted purchase price, as advancement in Canton to make sure the deal would happen. The amount of advancements

[93] *Tsai,* Trading for Tea, 74; *van Dyke*, Port Canton, Appendix D, 611.
[94] *van Dyke*, Merchants of Canton and Macao, 19.
[95] Ibid, 14.
[96] Ibid, 18f.
[97] *Gardella*, Harvesting Mountains, 19; *Pritchard*, Struggle for the China Trade, 281.
[98] *Morse*, Chronicles Vol. I, 162, 165; *van Dyke*, Merchants of Canton and Macao, Appendix 5A, 293.

varied according to the contracts and was mostly subject to negotiation, usually only a part of the full price of goods ordered was advanced.[99] So, Hong merchants had to invest a good deal of their own capital at the beginning of a trading season to ensure production and delivery for the next year. This practice, by binding the Hong's working capital until the deal would be realized the next season, created a second problem: the Hong's dependence on credits. Since, as mentioned, the business with foreigners meant a turnover time for profits of about one year for Chinese merchants, they needed to find ways to generate quick profits in the meantime, and gain working capital as a substitute for their capital bound in large tea and silk contracts during the off-season. Paying all port duties and fees connected with foreign trade and extortion by authorities, further influenced a Hong merchant's account considerably. Furthermore, for foreigners coming to China, it was illegal and prohibited to come without any commodities other than silver as cargo. European goods, mainly woollen articles, lead and copper, found nearly no demand in the Chinese market and Europeans usually had serious trouble selling their imported goods.[100] Still, due to British mercantile policy, the EIC was by several acts restricted to include merchandise into their export cargoes bound for China. From 1694 the EIC had to export merchandise articles of at least 100.000£ per year and from 1702, at least ten per cent of total export to the East had to be merchandise products.[101] However, trading data, as far as available, states the EIC had a hard time trying to obey these restrictions especially when it came to the trade with China. Between 1700 and 1730, in 14 of these 30 years, the export cargo of the EIC to China consisted of more than 90 per cent silver.[102] Still, this anti-silver-trade-policy of both the British and the Chinese state caused the actual traders in Canton serious problems. As mentioned, there was low demand for European goods in China, and Europeans heavily tried to force them into the market and often made the Hongs to accept those goods to be allowed the major share of trade.[103] For the Hong, this truck trade was very risky. Often, prices foreigners demanded for their import goods were higher than market prices in Canton, and the arrival of several European ships at about the same time bore a high risk of oversupplying the already undemanding market. In fact, trading in truck was mostly a financial loss for Hong merchants, thus likely to lower their general profits from trade with Europeans, or at least binding their capital by warehousing European commodities and waiting for prices to recover.[104] So, state restrictions of trade further influenced the Hongs' financial situation and strengthened the Hongs' need for credit to maintain their

[99] *van Dyke*, Merchants of Canton and Macao 19.
[100] *Tsai,* Trading for Tea, 115- 116.
[101] *Tsai,* Trading for Tea, 116.
[102] *Tsai,* Trading for Tea, Table 3.1, 118.
[103] *van Dyke*, Merchants of Canton and Macao, 22.
[104] Ibid; *Tsai,* Trading for Tea, 107-109.

businesses and meet all financial obligations. Due to this, foreign advancements and loans were attractive to the Hongs'. Private loans between European merchants or company officials and Chinese merchants quickly became customary. They were connected to official trading contracts between the companies and their Security Merchants, often affecting purchase prices, as well as being privately agreed upon by Europeans and Hongs.[105] Foreigners were not less eager to supply Chinese with loans because they would, in the first place, receive profitable interest rates up to 20 per cent.[106] Secondly, Chinese officials would honour those debts, though illegal, since they knew that credit and advances were crucial to let trade grow, so that foreigners were in the end always sure to be repaid their money. Even though there were edicts forbidding financial loans from foreigners, they were for the most part, nothing more than "*political rhetoric*".[107] Thus, by the 1720s, the Hong merchants were seriously indebted to foreign creditors.[108] As a second option, contraband trade in gold, although forbidden, also played a crucial role in supplying Hong merchants with capital during the first half of the 18th century. First, the gold-silver-ratio was very favourable for foreigners in China, hovering around 1:10 while it was about 1:15 in Europe,[109] so that Europeans had a keen interest to engage in this bimetallic trade to accumulate easy profits. Beawes shows his readers: "*And whilst I am on this Subject, it will not be improper to remark, or unprofitable to my Reader, that in this Traffick, the Difference between Gold and Silver is computed as one to ten, whereas the Difference in Europe is as one to fifteen, so that great Advantages are made by carrying the latter thither.*"[110] Gold purchases were to be paid fully in advance and generated instant profits, for which the Hong did not have to employ own capital, thus providing the Chinese merchants with some easy profits and working capital, too.[111]

As a consequence of the various needs of both foreign and Chinese traders, the Canton market was to some extent dominated by foreign capital by the 1720s and "*trade at Canton was* […] *facilitated by extensive imports of capital*"[112] for the entire duration of the Canton System. This basic structure of trading conditions was more or less established in the very beginning

[105] *van Dyke*, Merchants of Canton and Macao, 17, 19f.
[106] Ibid. 17f.
[107] Ibid, 18.
[108] Ibid, 17.
[109] Dennis O. *Flynn* and Arturo Giráldez, Cycles of Silver: Global Economic Unity through the Mid-Eighteenth Century. In: Journal of World History Vol. 13 No. 2 (Fall 2002), 395.
[110] See Footnote 4.
[111] *van Dyke*, Merchants of Canton and Macao, 18.
[112] *Gardella*, Harvesting Mountains, 34.

of the 1700s and was already customary by the mid or late 1720s, when trade became relatively stable and regular.[113] It then remained largely unchanged until 1842.

From what has been pointed out above, the following general observations can be made: The Canton System had developed fairly regularly and customary until the end of the 1720s and even before that. Until about 1730, with the arrival of other trading companies than the English, the French and the Belgian-Austrian, it had developed its basic points and grown from a try-error system to a system of contracted and personal relations. It had to meet three basic, often contradicting needs. First, the absolute condition for trade to be allowed at all by the Imperial Court, was the security and maintenance of peace and harmony. Thus, a tight system of control, monitoring foreigners closely and limiting their liberty of (trans-)actions as far as possible, needed to be developed. At the same time, once trade had started and revenues collected, governor-generals and Hoppos were expected to increase the annual revenues to Beijing and thus, had for the sake of their careers, a keen personal interest to encourage trade and to provide a trading environment that would be acceptable for foreign merchants. Second, since these various Chinese officials involved in this system were mostly paid with a share of all collected duties, taxes and levies, they had another reason to encourage trade and ensure it would grow rather than decline. This is arguably one of the persisting, basic weaknesses of the Canton System. Third, it was always in the interest of foreign merchants to increase trade activity, to enable trade in other places than Canton and to gain more and freer access to the Chinese market. As a consequence of these three separate interests, the Canton System can be defined as having been based on three pillars: *control, credit* and *contraband*. First, control by the state of foreigners as well as Chinese merchants was unconditional, to enable trade politically, and as a result, Chinese merchants always competed against each other, trying to gain control over the Canton market to secure the largest share of trade and profits for themselves. However, the introduction of the Co-Hong in 1720 was a protective mean by the merchant community against a monopoly of one single Hong. Second, credit, given mostly by foreign merchants to their Chinese trading partners, was necessary to enable Chinese production to meet European demand and occurred in the first two decades of the Canton System. Third, contraband trade in gold was a crucial element of trade for Chinese Hongs to accumulate quick profits and working capital. To keep the system alive, a balance between these three aspects had to be maintained. However, with growing trade and growing numbers of foreign ships and nations arriving in Canton from the beginning of the 1730s, the system faced new challenges.

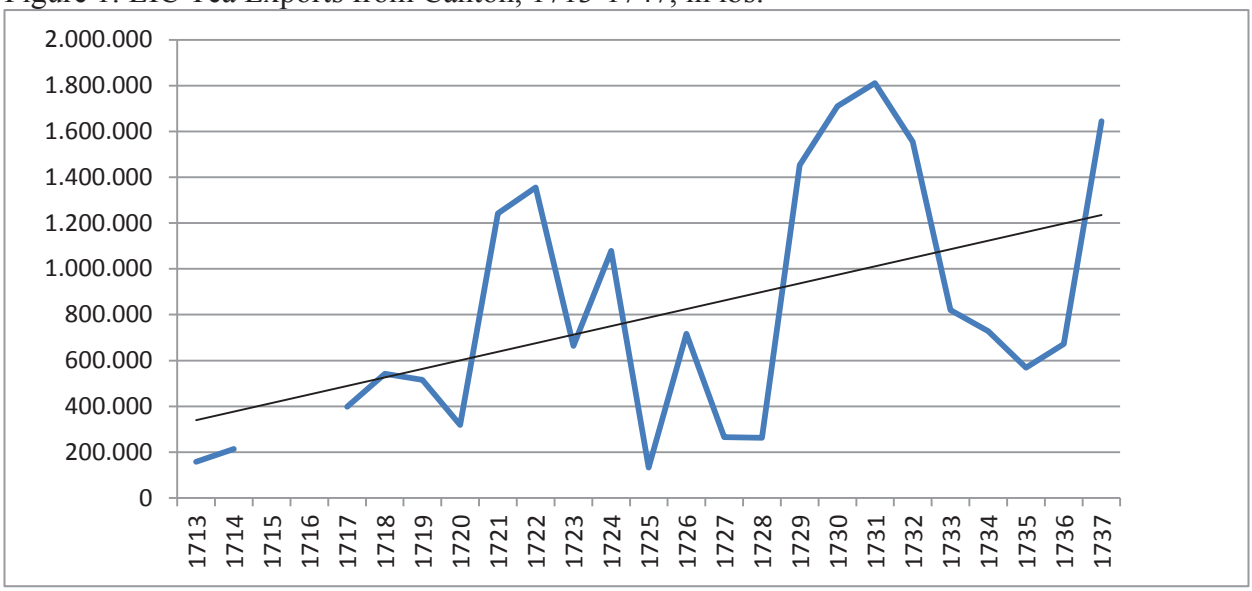
[113] *van Dyke*, Port Canton, 18, 27; *Eames*, The English in China, 59, 64; *Pritchard*, Struggle for Control of the China Trade, 281.

The beginning of the 1730s brought, in the form of the appearing Dutch and Scandinavian East India companies, considerable tidings to Canton. In 1727, some small vessels arrived in Canton, they are likely to have been a sort of "scout ships" for the VOC to explore local opportunities. Ton Hunqua successfully managed to conduct the trade with these ships and most likely encouraged the Dutch supercargoes to open direct trade with Canton.[114] In 1729, the Dutch who formerly conducted their China trade from their base at Batavia, dispatched two ships to Canton and continued doing so from that date on.[115] The Swedish Company (SOIC) first arrived in Canton in 1732 and the Danish Asian Company (DAC) entered business three years later.[116] Consequently, demand and competition for Chinese goods among European companies accelerated significantly. The increase in the numbers of foreigners arriving might have given the Hong dealers a better position in leveraging purchase prices of their goods, and thus increasing prices. As a matter of fact, higher prices accepted by the EIC for woven silk are documented for the year 1734,[117] but for tea there were no major changes in purchase prices from 1731-34, with prices more likely to decrease than increase.[118] The bulk of the literature shows that the amount of total trade grew considerably during the 1730s. Chaudhuri indicates a growth of EIC tea exports from 1731-41 of almost a third compared to the preceding decade.[119] Van Dyke shows that trade had grown about 78 per cent from 1740-1749 compared to the period 1730-1739.[120] However, looking at the Canton trade closely, it is very likely that most of this growth did only occur from the second half of the 1730s. Whereas eight European company ships with a total cargo of nearly 4.000 tons traded in Canton in 1729, this number grew to ten ships with a total of 4.600 tons in 1732, and twelve company ships with a total tonnage of about 5.200 tons one year later.[121] However, in the next two years, 1734 and 1735, the trade volume was much lower; only five European company ships with 2.500 tons total came to the Chinese port in the former year, and it is likely that the numbers for 1735 were not much greater.[122] In 1734 and 1735, the EIC sent ships to other ports than Canton for the first time since it abandoned the Amoy trade in the 1710s.[123] Total EIC imports from China (that means: from Canton in these years) dropped in

[114] *van Dyke*, Merchants of Canton and Macao, 104.
[115] *Morse*, Chronicles Vol. I, 193; *van Dyke*, Merchants of Canton and Macao, 104.
[116] *Morse*, Chronicles Vol. I, 211f, 229.
[117] Ibid, 224. But this might have been due to better quality as Morse mentions.
[118] Ibid, 203, 212, 224. See also: *Chaudhuri*, Trading World of Asia, 388.
[119] *Chaudhuri*, Trading World of Asia, Table A.17, 388.
[120] *van Dyke*, Merchants of Canton and Macao, Table 3.1, 50.
[121] *Morse*, Chronicles Vol. I, 199; 218. Tons totalized.
[122] Only three English company ships sailed to Canton this year (*Morse*, Chronicles Vol. I, 230, 234). The two main Hong merchants of Canton at that date did no trade with the VOC or French Company during these two years (*van Dyke*, Merchants of Canton and Macao, Appendixes 5A, 294 and 6A, 316f-18).
[123] See: *Morse*, Chronicles Vol. I, 220, 230.

value from about £104.000 in 1732 to only £44.000 and £33.000 in the next two years respectively, and only began to recover from 1735 onwards.[124]

Figure 1: EIC Tea Exports from Canton, 1713-1747, in lbs.[125]




As Figure 1 shows, British purchases of tea remained very unsteady from year to year until the mid-century, demonstrating significant annual fluctuations. Still, the Canton System did work and trade tended to grow as the trend line indicates. However, total EIC exports of tea from China decreased dramatically from lbs. 1.800.000 in 1731 to some lbs. 800.000 and lbs. 600.000 during 1733 and 1735 respectively. Additionally, the trade in raw silk was threatened substantially. While the EIC had successfully expanded purchases of silk to about lbs. 77.000 in 1732 compared with some 25.000 pounds in 1725, the Canton market failed to supply enough raw silk in 1733 and prices increased by more than half. Further, "*1732 was the last year before 1752 when there were substantial imports of Chinese raw silk*".[126] Exports of chinaware remained relatively stable, but had barely become important by 1710s and contributed only a fraction of the EIC investment.[127] In general, the share of imports from China of EIC's total imports from Asia had decreased from about 15% in 1731-1732 to only 7.7%, 4.7% and 5.0% in 1733-35 respectively.[128] This means that the European company trade volume in general, as measured by total ship tonnage, shrank by about a half and English tea exports decreased by more than two thirds, while substantial exports of raw silk ceased completely! Recovery only began in 1735 and by 1736 trade numbers grew again to more than the pre-crisis levels and pre-crisis fluctuations. In 1737, 11 ships with a total

[124] *Chaudhuri*, Trading World of Asia, Appendix C2, 510.
[125] Source: Ibid, Appendix C19, 538-539.
[126] *Chaudhuri*, Trading World of Asia, 351.
[127] Ibid, 519, 535, 538.
[128] Ibid, 509f.

tonnage of about 6.100 tons arrived in Canton.[129] Total imports from China had again nearly reached the 1732 level and total EIC tea exports had grown even larger after the crisis, now nearly reaching the pre-crisis all-time-high every two or three years. Thus, trade in the most important commodities, tea and raw silk, suffered substantially during these years, indicating a serious crisis within the market. But which market, the European or the Chinese one? And what caused the crisis? Was Canton no longer a convenient trading port as the British attempts of reopening trade at Amoy and Ningpo might indicate? Was there a serious interruption of European demand for Chinese goods? Is the reason for the 1733-1735 crisis to be found in Europe or in China? As shown thus far, the trade of all European companies, not only the EIC's, suffered heavily. In addition, the British were not engaged in any major war, which could have detained ships from going to China during these years. Thus, a general market failure is more likely than a failure of only British trade attempts. According to Chaudhuri "*there were two major sources of fluctuations in the yearly imports. The demand in Europe was far from being a constant factor, and* […] *when all the competitors in trade were rapidly expanding their supplies* […] *it was inevitable that periodical gluts should appear*".[130] The second reason he points out is the unpredictability and incidents that could happen on the long journey to Canton. Thus, "*it was the changes in the Company's demand for tea and the price limits imposed on the supercargoes that caused the supplies to move upward or downward.*"[131] So, did the competition by the Ostend and French companies and the entry of the Dutch, Danish and Swedish in the Canton market considerably increase tea exports to Europe and cause a price crisis due to oversupply? The answer seems to be yes. Whereas the EIC's tea export from Canton remained on a relatively low level after 1725, hovering around an annual average of lbs. 340.000, the Ostend Company seems to have been more successful in tea purchases in Canton, trading with all the most important Hong merchants, Tan Suqua, Tan Hunqua and Beaukeequa in 1727.[132] According to Guotu, the Ostenders exported nearly 60 percent of all China tea shipped to Europe during 1725-28, with their total exports from 1719-28 amounting to slightly more than 7 million pounds, approximately 3.000 pounds less than the EIC's exports.[133] Moreover, in the first three years after her arrival, the VOC successfully started and continued to trade with the same three merchants.[134] During the '20s, the VOC's orders at Batavia had grown from some 60.000

[129] *Morse*, Chronicles Vol. I, 223 (for tonnage of the Harrison and Grafton, see ibid, 308f.), 261.
[130] *Chaudhuri*, Trading World of Asia, 389f.
[131] *Chaudhuri*, Trading World of Asia, 389.
[132] *van Dyke*, Merchants of Canton and Macao, 309, 321, 352.
[133] *Guotu,* Tea, Silver, Opium and War, 149. According to Chaudhuri's figures, the EIC exported ca. 6.5 million pounds of tea 1719-1728.
[134] *van Dyke*, Merchants of Canton and Macao, 306, 316, 352.

pounds to a million in 1729![135] This likely alarmed the EIC Court in London who would see this as a threat and competition. Consequently, for 1729, the Canton supercargoes were ordered to enlarge purchases to "[…] *secure or contract for all Tea procurable.* […] *Cost what it will we must try to make this Interlopers sick of their voyages for Tea.*"[136] EIC exports of tea grew dramatically to an annual average of about lbs. 1.600.000 in the period of 1729-1732! Yet, the VOC managed impressive tea purchases of some lbs. 1.400.000 on annual average between 1730 and 1732, hence almost doubling the total tea supply sent to Europe![137] Due to the rising purchases of mainly the EIC and the VOC and the significant supplies bought by the Ostenders, the dramatic rise of tea supplied seriously harmed the vulnerable European and especially the English market and this caused a significant decline in prices.[138] The problem was not only an inelastic demand for tea but high tea taxes in Great Britain which heavily encouraged and caused smuggling. This might have been the sole main aim of other companies to import tea into Europe – to profit from high British luxury taxation by smuggling tea to the island. As long as such high taxes existed, smuggling would not stop.[139] Thus, the sale prices for tea "*were determined largely by extraneous conditions*".[140] By trying to force competing companies out of the trade, the English had contributed to a heavy oversupply of the market and a price crisis. By 1732, London's warehouses kept a tea stock sufficient to supply the market for two or three years and prices were falling considerably.[141] This "struggle for the China trade" turned out to be disastrous not only for the European market, but for the Canton trade, too. The effects of oversupplying Europe had visible backlashes on the Canton trade.

In 1729, the same year when the British supercargoes were ordered to expand tea purchases, an affair took place in Canton that would seriously affect the commercial environment for the next years. Ton Hunqua, being one of the top Hong merchants at that time, accused his competitor Suqua, the top Hong, the Hoppo and English chief supercargo William Fazakerley of fraud. What had happened? Suqua agreed with Fazakerley to record higher purchase prices of tea in a contract than they really had contracted for, if Fazakerley cancelled a deal with Hunqua and gave it to Suqua. Fazakerley would then pocket the difference. The Hoppo's role in this situation is not perfectly evident, but assumingly he was bribed to oil the fraud's

[135] *Guotu,* Tea, Silver, Opium and War, 107.
[136] *Morse*, Chronicles Vol. I, 162. See also: *Chaudhuri*, Trading World of Asia, 391.
[137] Els M. *Jacobs*, Merchant in Asia. The Trade of the Dutch East India Company during the Eighteenth Century. (CNWS Publications Vol. 146. Studies in Overseas History/ 8, Leiden 2006), 185.
[138] *Chaudhuri*, Trading World of Asia, 391f.; Jacobs, Merchant in Asia, 185.
[139] For a detailed discussion of tea smuggling, see: Hoh-Cheung and Lorna H. *Mui*, Smuggling and the British Tea Trade before 1784. In: The American History Review Vol. 74 No. 1 (October 1968), 44-74.
[140] *Chaudhuri*, Trading World of Asia, 396.
[141] Ibid, 390-392.

wheels. This was discovered by Ton Hunqua and reported in a private letter to the EIC Court of Directors in London in which he further recommended to the EIC that they station an agent year-round in Canton to organise purchases and business.[142] The fact that supercargo James Naish "*was the only supercargo* [to that date] *ever to have spent a whole year (1730-1) in Canton*"[143] indicates that this accusation was indeed taken seriously by the directors. Consequently, in 1731, when the Court's answer arrived, the English supercargoes were ordered to not trade with Suqua, but with Ton Hunqua and his partners.[144] However, trying to establish direct contact or even communicate with any foreign person or institution outside China was severely forbidden to any Chinese and restricted to the Emperor. After Chinese officials had been informed about Hunqua's letter, maybe even by English supercargoes who had a keen interest in preventing direct communication between Hong merchants and the London Court due to their private, often illicit trading activities,[145] Hunqua was forbidden to trade, imprisoned and forced to cede a part of the trade with the English to Suqua.[146] Still, trade continued relatively unharmed. However, in the next year, 1732, the affair between Suqua and Hunqua continued and Suqua himself started to act against Hunqua's attempts. Due to his involvement in this affair and the official investigation, Hunqua held a low trading profile in 1732, but tried to defend himself before the Emperor and explain what had happened.[147] Thus, in 1733, the Emperor commanded to throw Suqua into prison where he seems to have remained until 1734 or 1735.[148] Still, Hunqua's credit with the English and his economic situation had suffered a lot due to this affair. He lost his good position in the market and remained only a minor player after the mid-1730s. After he was released from prison, Suqua needed some years to overcome the suspicion and bad credit he had with the English, but managed at the end of the 1730s to become quite successful in trade again in partnership with his son Chetqua. [149] In any case, this affair had considerably damaged both Suqua's and Hunqua's credibility and businesses. None of them regained the dominant position within the Canton trade that they had had at the end of the 1720s and the beginning of the 1730s. To summarize, the years 1731-1735 saw serious interruptions in the Canton market. The two major Hong merchants of the city were involved in a serious law-suit against each other and were both, during this period, repeatedly thrown into and rereleased from prison. Additionally, as not yet mentioned, a third big player, Beaukeequa, who did considerable

[142] *van Dyke*, Merchants of Canton and Macao, 84, 105-7.
[143] *Chaudhuri*, Trading World of Asia, 398.
[144] *van Dyke*, Merchants of Canton and Macao, 108.
[145] Ibid, 110.
[146] *van Dyke*, Merchants of Canton and Macao, 84f., 108f.
[147] Ibid, 112f.
[148] Ibid, 85f.
[149] Ibid, 86f.

trade with all the European companies, ceased this engagement and left Canton in 1734.[150] Thus, by 1735, the crisis had more or less eliminated the top ranks of the Canton Hongs, and other players like Texia and Simon had entered trade and superseded them by the end of the decade.[151] Both events, the heavy demand-supply crisis in Europe and the dramatic crisis of the major Hong merchants in Canton seem so closely connected that their contemporaneous occurrence cannot be explained as pure coincidence. To explain this phenomenon, one should rather draw a picture of a close link between the European and the Canton market.

As pointed out above, Suqua had gained a favourable position within the Canton System by helping the EIC to eliminate the 1720 Co-Hong and had become the major player among his Chinese competitors, he continued to remain in this position during the second half of the 1720s. As mentioned before, Ton Hunqua played an important role in the opening of direct VOC trade at Canton in 1727 and 1729. Most likely, this was in an effort to increase competition and challenge Ton Suqua's position as the EIC's most preferred merchant and thus leading Hong merchant. Answering Hunqua's offensive, Suqua tried to obtain an even better position in trade with the EIC by accepting and participating in the English supercargo's attempts to cheat on the company. The first consequence of these events was an increased competition among European companies arising at the end of the 1720s, mainly among the English, the Ostend and the Dutch companies. This led to a race for tea, which subsequently flooded the European market, causing prices to decline considerably and thus creating a heavy demand crisis in Europe. Secondly, Suqua's and Fazakerley's fraud on Hunqua and the EIC in 1729 led to legal proceedings which would run for a couple of years, weakening both of the top merchants and thus further worsening the economic situation in Canton. Boakeequa's withdrawal from the city in 1734 might be an indication of the bad circumstances.

In general, analysing how the crisis developed reveals that it had its roots in the 1720s, and that it was mainly caused by *control* and *competition.* If the Co-hong of 1720 had not been dissolved with the help of Suqua, he would not have become the major player in Canton in the 1720s, and a status quo would have been established within the city. If Suqua had not become the leading merchant but the status quo had remained, the *struggle for the Europe trade* would not have developed between him and Hunqua. If this struggle had not emerged, the VOC might have had a harder time to enter the China trade and would not have accelerated *competition*. The struggle of *control* for the tea trade between EIC and VOC and the affair of

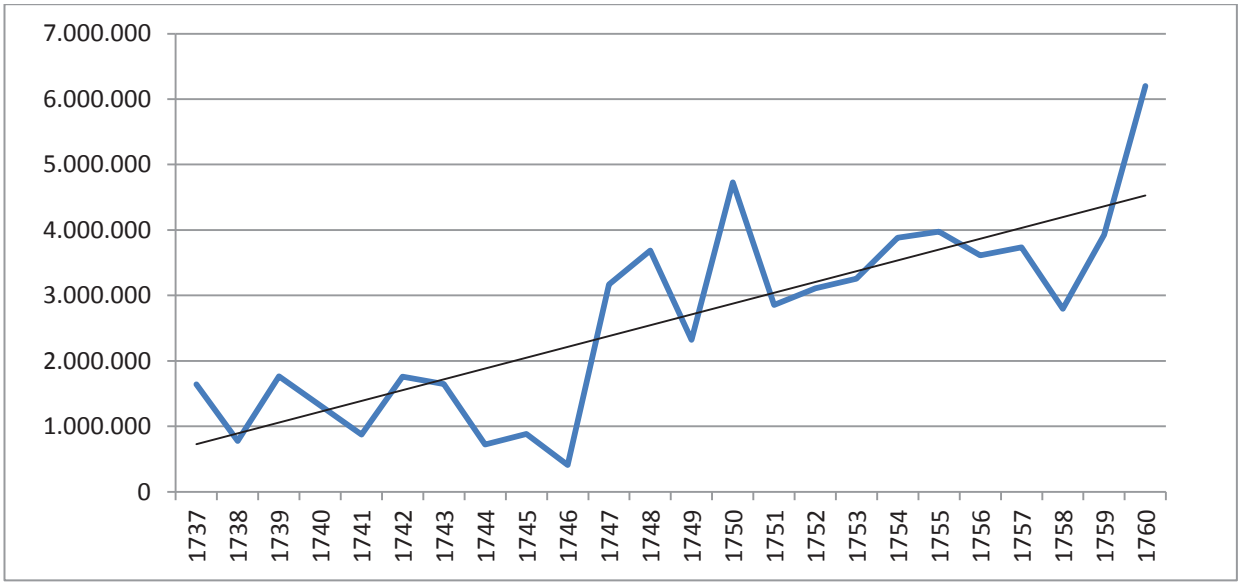
[150] *van Dyke*, Merchants of Canton and Macao ,137.
[151] Ibid, 87.

1729 would not have occurred. If all this had not happened, the European market would not have been oversupplied by the companies, which led to the collapse of the European market. If the European market had not collapsed, the Canton market would not have collapsed either. Thus, the origin of the collapse of the *international* tea market 1734/35 is to be found within the Canton System! The inter-European competition and the distribution of – and struggle for - market power between two main players, Suqua and Hunqua, had reciprocal effects on each other and initiated a chain of events that nobody could predict. Thus, it turns out that not only a monopoly in Canton could seriously affect the market, but too much competition between too powerful actors could do so, too! Secondly, as was likely recognized by the EIC directors, the monopoly of Canton as the single trading port did indeed give the Europeans advantages of personal relations and customary proceedings, but it made them dependent on this single market, too. Any interruption within the Canton market could affect the international market altogether, as is what happened. Further, since European and Chinese agents had fairly little knowledge of what happened behind each other's scenes, it was basically out of their ability to predict such upcoming problems within the market. Thus, the mid-1730s saw a watershed in Sino-English commercial relations. The EIC, amplifying the *divide et imperare* policy it already applied in Canton and tried to reopen trade at other Chinese ports to reduce its dependency on the Canton monopoly until foreign commerce was finally restricted to Canton by the Emperor in 1757. Secondly, they had learned that a really significant increase of their trade in tea could only happen when they had better control over the European market. This was, in reality, a question of the British tax policy. As long as the EIC had not acquired the sole monopoly in supplying Europe with tea, they had to handle this trade "with handbrakes on". Furthermore, it did have something like a ceasing effect on Canton's merchant society. New players, most importantly Chetqua, Cai Hunqua and Texia, entered Hong status and dominated trade until the end of the 1750s. Altogether, the 1733-35 crisis played a very central role in the history of the China trade in the 18$^{th}$ century, eventually leading to the Imperial restriction to Canton in 1757, and to the cognizance that British tea taxes were the greatest obstacle of a significant growth of the trade. This is to be shown in the next chapter.

## 1.3 1736 - 1760s: Coming of Age

Tracing the history of the Canton System during the 1740s becomes more difficult due to a lack in the EIC records.[152] However, as the system had survived the crisis of the early 1730s, the following decades until the end of the 1750s were times of expansion and intensification, despite the EIC attempts to find ways out of the Canton monopoly. By 1751-60, the total EIC tea exports had grown by 85% compared with 1731-40, and total trade volume of all companies had risen about 139% since the 1730s.[153] Again, there is some differentiation to be made.

Figure 2: EIC Tea Exports 1737-1760, in lbs.[154]




Indeed, the amount of tea exported by the EIC had recovered to a pre-crisis level by 1737, again hovering, with some years of exception, around lbs. 1.5 million per year until 1743. After three years of decline to only about half, EIC tea exports suddenly rose to spectacular lbs. 3.1 million in 1747, remaining on this level relatively constant until 1759. Whereas the 1740s were a time of quite substantial growth, the 1750s represent the steadiest time this trade might have seen before these days, with export numbers maintaining a very steady and high level compared to the decades before. The percentage of imports from China, as a share of the total imports from Asia, rose to 21.3%, whereas in more prosperous previous years before 1747 it had been about 15%.[155] Compared to the 1730s, by 1760 British tea exports had

[152] See *Morse*, Chronicles Vol. I, 285; *Cheong*, Hong Merchants of Canton, 80.
[153] *Chaudhuri*, Trading World of Asia, 388, Table A.17; *van Dyke*, Merchants of Canton and Macao, 50, Table 3.1
[154] Source: see Figure 1
[155] See *Chaudhuri*, Trading World of Asia, 539, Table C.19; 510, Table C2.

grown by 600%! So, real growth in tea exports occurred only after 1746. What fostered this spectacular rise lifting EIC tea trade to a new level?

Tsai generally explains the growth of trade in tea as follows: "*Since most of the Company tea was retained for home use, with less than one-fifths of the total being re-exported to other areas during the period 1711-1760, the rapid growth of the EIC's tea trade can be chiefly attributed to a substantial growth in English demand for tea*."[156] Demand was most certainly an important stimulus of trade. However, as pointed out above, it was not the single factor influencing the tea trade. Tsai does indeed point in the right direction by acknowledging the negative correlation between British tea taxes and EIC tea exports from Canton: "*Each time the British government raised the tax on tea, the Company suffered a decline in its tea sales.*"[157] To hit the mark, one could turn this argument around by saying: "*Each time the British government lowered the tax on tea, the Company saw a rise in its tea sales*". As argued in the previous chapter, it was the British taxes on tea, which encouraged smuggling and threatened the tea sellers' profits, and ultimately, limited the market. This becomes clear again during the 1747 expansion. Jacobs points out that tea prices in Europe were rising at the start of the 1740s.[158] But, due to the increasing smuggling activities, it is likely that British tea dealers were to some extent excluded from the improving the market situation and their profits were suffering. As a consequence, in 1745, the excise tax on tea, formerly conducting four shillings per pound, was considerably lowered to one shilling per pound plus 25 per cent ad valorum.[159] It was this solely political measure that could enable the EIC's kick-start of Canton exports. Another incident hints to the argument that it was the condition of the British market that limited commerce, not that of the Chinese market. On December 7th 1743, a huge fire broke out in Canton, destroying a considerable number of shops, factories and warehouses. Most likely every Hong was affected and Suqua, maybe very shocked, as he is said to have lost £200.000 all at once.[160] However, the EIC trade of that season did not suffer at all. Van Dyke reveals that all Hongs were likely able to fulfil their contracts, and Chaudhuri's account shows that the tea trade remained stable this year. Thus, even though the fire destroyed huge quantities of goods and capital, the Hongs were able to quickly purchase and deliver replacements. This could only be possible due to sufficient supply on the Chinese domestic market. The Hongs could call up and indicate to some degree the market size beyond Canton. But, presumably, the Hongs had to rely heavily on foreign credits to be financially able to compensate a whole season's goods, and became thus more indebted to

[156] *Tsai,* Trading for Tea, 71.
[157] *Tsai,* Trading for Tea, 78.
[158] Jacobs, Merchant in Asia, 191.
[159] *Mui* and *Mui*, Smuggling and the British Tea Trade, 52. See also Footnote 25, ibid, 51
[160] *van Dyke*, Merchants of Canton and Macao, 88.

their European trading partners. The drop of EIC tea exports between 1743 and 46 might be a sign of the fire's aftermath, too. Nevertheless, exemplarily, Dutch tea exports do not show an evenly considerable or comparable drop in tea exported for these years.[161] I think it is more likely that the drop of British exports was due to an unfortunate British market condition, only increasing again with the change in tea taxes that likely had an effect in the second year after it was passed.

Astonishingly and despite of the sudden upsurge of EIC demand in Canton from 1747 onwards, this phase of the Canton System is often stated to be a time of significant difficulties for the Chinese suppliers to keep up with growing European demand.[162] Van Dykes puts it as follows:" *In the 1740s and 1750s, the foreign export trade was suffering, but more from its own success than from failure.*"[163] Indeed, from 1746 to 1747, EIC tea trade grew nearly eightfold and remained on this high level! Considering further that the VOC was at the same time successful in increasing its tea exports from Canton to nearly 2.5 million pounds per year compared with the 3 million pounds of the EIC, it makes it even more remarkable that van Dyke speaks of a time of *suffer*. [164] He attributes this suffering of trade to the growth of European demand overcharging the Chinese market and says that "[…] *inland suppliers were still struggling to keep up with demand*."[165] But, as seen above, the Chinese market itself was most likely large enough to supply a, in a Chinese sense, relatively small amount of foreign demand for tea. Unfortunately, there is no data on the amount of tea exported by European traders as a share of total marketed tea in China during the 18th century. There are accounts for the early 19th century though, accounting the European tea exports as less than 15% of total marketed tea in China, or at about 23 per cent in 1840.[166] Furthermore, there is no reason to believe this proportion was greatly different around 1750. In that case it would be rather small since "*trade between Canton and Europe grew at the rate of 4 percent a year between 1719 and 1806* […]".[167] A growth rate that is most unlikely to have occurred on the Chinese tea market, suggests that the relative share of exported tea as a portion of the total tea grown in 1750 was even smaller than in 1820 or 1840. Therefore, the Chinese market was most likely large enough to supply a growing European demand, even around 1750. Why then did supply problems exist in Canton?

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[161] See Liu *Yong*, The Dutch East India Company's Tea Trade with China, 1757-1781 (Dissertation presented at the University of Leiden, Leiden 2006), Appendix 4, 212.
[162] *van Dyke*, Merchants of Canton and Macao, 49-51.
[163] Ibid, 49.
[164] Jacobs, Merchant in Asia, 191.
[165] *van Dyke*, Merchants of Canton and Macao, 53.
[166] Susan *Naquin* and Evelyn S. *Rawski*, Chinese Society in the Eighteenth Century (New Haven/ London 1987), 104 and Peer *Vries,* Zur politischen Ökonomie des Tees (Stabwechsel. Antrittsvorlesungen aus der Historisch-Kulturwissenschaftlichen Fakultät der Universität Wien, Bd 1 Wien/ Köln/ Weimar 2009), 51.
[167] Ramon H. *Myers* and Yeh-Chien *Wang*, Economic Developments 1644-1800. In: Willard J. Peterson (ed.), The Cambridge History of China. Vol. 9. Part One: The Ch'ing Empire to 1800 (Cambridge 2002), 587.

Van Dyke himself gives the explanation. The sudden upsurge of European tea demand in 1747 (the latest) meant a great expansion of the business, including all the various resources the Hong merchants needed to expand production and purchases. It is most likely that the expansion of trade volume had simply grown larger than the economic means of a single Hong. Indeed, even before trade had reached this new level, the capital involved in this commerce was immense. In 1736 for example, the EIC bought goods from "Young Kiqua" worth approximately 50.000 tael.[168] At the same time, and even during the entire 18th century, the VOC paid her Chinese workers a salary that hovered around 0,1 tael per day. An average monthly wage hovered around two or three, later between three and four taels in the course of the century![169] Thus, Hong merchants and their companies where, even before 1747, economic superplayers! Anyhow, after 1747, the increased amount of tea that Europeans demanded in Canton had grown over the means of the individual Hong merchants' businesses. As a second example, in 1747, only the EIC exported about 3.1 million pounds of tea. If we take approximately 20 tael per picul as a fair average prime cost for the Hong merchants,[170] these 3.1 million pounds of tea would have needed a capital of nearly half a million tael for production and transport to Canton; an incredible sum![171] Thus, the supply problem was not a problem of the production itself but rather a commercial problem of the Canton System. To solve it, European advancements had first to be enlarged and standardised to bring more reliability into the system, and secondly, the Hongs needed to gain more control over these advancements and engross their stock of working capital at the same time. They did this by joining together into an association.[172] These associations helped the Hongs to expand the volume of their trade, and thus offer competitive prices and increase the amount of advances sent to inland producers. This in turn, was crucial for expanding production, as was mentioned above.[173] To stay competitive and keep their firms alive, other Hongs were forced to join together after the first association was formed. Even though a Hong was able to maintain trading on a small or medium level on his own, he would have most likely been driven out of trade by more competitive prices offered by his associated rivals. Thus, again, associations were means of the struggle for *control* and *credit* and from about 1750 onwards

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[168] *Morse*, Chronicles Vol. I, 255.
[169] See Robert *Allan* et altera, Wages, Prices, and Living Standards in China, 1738-1925: in Comparison with Europe, Japan and India. (LSE Working Paper No. 123/09), 6f; *van Dyke*, Merchants of Canton and Macao, 93.
One has to further consider that, first, Chinese real wages in silver might have been lower than European silver wages in general and, second, that wages in Canton seem to have been rather at the upper end of the Chinese wage level. Compare ibid, 53f.
See also http://www.iisg.nl/hpw/data.php#china (25-07-2012), especially Prices and wages in Canton and Macao, 1704-1833 by *P.A. van Dyke*.
[170] *Tsai,* Trading for Tea, 101; *Morse*, Chronicles Vol. I, e.g. 291.
[171] 3.100.000/133= 23308 picul. 22308*20= 466160 tael.
[172] *van Dyke*, Merchants of Canton and Macao, 51.
[173] Compare: ibid, 52.

until at least 1771, the commercial environment was dominated by large trade enterprises rather than by a multiple of smaller firms.

The first major fusion of Hong firms took place in 1751 when Cai Hunqua, a Hong of considerable means since the beginning of the 1730s,[174] Beaukeequa, who had returned into the Canton business in 1748, and Hongsia, a relative of Texia,[175] joined together with the aim to purchase the entire VOC imports.[176] Since there is no exact data of the VOC's trade at Canton for this year, we cannot be sure if the association really was successful in becoming the *main* supplier for the Dutch company. Nevertheless, the data reveals that they managed at least to deal in various VOC items.[177]

In 1753, Beaukeequa was part of a second, even larger fusion of firms, and joined together with Tan Suqua and his son Chetqua, Texia's son Swetia and Tan Anqua.[178] As a matter of fact, this *consortium*, as van Dyke calls it, was an association of some of the most powerful Hong merchants of this time. Again, it seems to have been quite a successful year for the 'joined' merchants. By vouching for each other, the partners of the consortium did indeed gain a greater market share and better leverage position because they were able to provide greater numbers of goods and could ensure delivery on time. Thus, the consortium brought more reliability and stability. Even though both of these first attempts to control or to dominate the Canton System only lasted for one season each, the Hong merchants seem to have evaluated the consortium as the right reaction to the changed situation of commerce. However, the 1753 association only lasted for one year. Tan Suqua and Swetia, likely the two richest and most influential merchant houses in Canton, maintained close business relations with each other, as did Beaukeequa and Tan Anqua.[179] In 1754, the top six merchants jointly acted against two other Hongs and accused them of dealing with foreigners without permission. Both of the accused were arrested. In the following year, the same six merchants managed to achieve control over the more than 100 'outside' shops in Canton, which were mostly dealing in daily necessities or small amounts of tea, silk and other more precious goods.[180] Through the merging of trading houses, the number of single firms active in the Canton System reduced and the now associated merchants drove smaller competitors out of business. Whereas there had been at least 26 different firms in and before 1557, in 1760 only 17 of them remained.[181] Obviously, joining together to achieve a greater share of the market

[174] *van Dyke*, Merchants of Canton and Macao, 347.
[175] Ibid, 366.
[176] Ibid, 53.
[177] See ibid, e.g. 350.
[178] Ibid, 53.
[179] Ibid, 91.
[180] Ibid, 54.
[181] Ibid, 54.

was a good reaction to the growing European demand. Beaukeequaa, in weak financial conditions when returning to Canton in 1748, was listed third on the Dutch list of top merchants in 1753, and first on the Danish list in 1755.[182] Cai Hunqua's firm was among the top-six merchant houses during the 1750s,[183] and Sweetia, taking over the Yan-hong after his father's death in 1751, managed to maintain the influential position his father had gained by repeatedly associating with Beaukeequa and Tan Suqua. He was listed among the top merchants, yet in 1755 trading with all European companies.[184] Cai Hunqua was successful in maintaining his good position of the 1740s in the trade with the Danish company throughout the next decade.[185] Tan Suqua and Chetqua were able to maintain the powerful position their Hong had, had for almost three decades through the powerful connection with Sweetia.[186] In the course of the 1750s, these combined merchant houses grew more and more powerful. Thus, the 1750s can be called a period of centralisation of economic power among half a dozen merchant firms. Further, it was a very important development towards the formation of the Co-hong in 1760. However, again, these developments were not caused by the restrictions of any Chinese governmental institution aiming to hinder trade or increase its control over it. The centralisation of the 1750s was a necessary development answering a dramatic increase of the trade volumes by European companies. Without joining market forces, the Canton Hongs would have most likely not been able to satisfy the English and Dutch hunger for tea after 1747. Accordingly, this coming of age for trade, the steady growth and the business structures, are mirrored in the EIC's export figures presented above. Without trade being smoothly enabled and guaranteed by mercantile associations, this development would not have been possible. But, even though the 1750s developed the basic economic structure of the Co-hong system during the 1760s, it needed a serious impetus for the government to interfere with the Canton System. This incident happened in 1758, and it happened in Canton.

In 1759, an incident took place, which has since then in most (Western) literature been seen as the cause of the major changes to the Canton System which occurred in 1760: the Flint Affair. What had happened?

As we have seen before, the British were never completely satisfied with the Canton trading environment and tried continuously to open commercial opportunities at other Chinese ports, especially during the 1720s and 1730s. The developments of the 1750s, the centralisation of the market among few *consortia* in favour of the Hong merchants, likely reawakened the

[182] *van Dyke*, Merchants of Canton and Macao, 142.
[183] Ibid, 126.
[184] Ibid, 152, see also 358-360.
[185] Ibid, 124.
[186] Ibid, 91.

EIC's dissatisfaction, which had been rather at rest for about a decade. Again, British attempts to circumvent the Canton's monopoly were revived in the mid-1750s. Since the year 1755, James Flint, a company's employee and Chinese-speaker, had been sent without result to the port of Ningpo several times with the mission to open trade. In 1757, an edict was published forbidding Europeans to enter or trade at the port of Ningpo.[187] Still, Flint was sent there again two years later. When he proceeded to Tientsin and presented a petition to the Emperor through some local officials, he was sentenced to jail for going to Ningpo despite of the Emperor's prohibition, and for trying to have direct contact with the Emperor, which was a heavy offence against the Chinese habits of foreign relations.[188] Foreign trade was then officially restricted to Canton and the Co-hong established increased control over "insurgent" foreigners. The door to open trade with other ports was ultimately closed for the next 80 years.

"*Therefore, the Flint mission not only failed to achieve its objective to create a favour trading environment, but, by contrast, resulted in a stricter restriction being imposed upon the British commercial activities in China.* […] *The result that a stricter trade restriction was imposed also revealed the incompatibility of the EIC and the Chinese central government's attitudes towards foreign trade. For the Company, the creation of a favourable trading environment in China was one of its priorities. However, what the Chinese government was really concerned about was nothing to do with the development of its foreign trade, but the protection of its empire from foreign penetration and the assurance that considerable revenue could be collected without much trouble.* […] *It was, therefore, the Ch'ing Imperial Court's need to ensure the least trouble from foreigners, and the Canton authority's fear that the valuable revenue from foreign trade would be destroyed, that led to the confinement of foreign trade to Canton, as well as* [to] *other restrictions* […] *referred to in the EIC's own records and other western literature as "Co-hong" or 'Cong-hong'.*"[189]

In this citation, Tsai soundly summarizes the main interpretation of the events of the late 1750s. Indeed, most students address the Flint Affair as the main reason why trade was restricted to Canton in 1759, and why Emperor Chienlung founded the Co-hong in 1760. Thus, interpreting the Canton System 1760-1842 as a system founded and dominated by official restriction. However, by using new and detailed information published only recently by Arthur van Dyke, this old interpretation becomes more and more unlikely. It is the aim of these pages to offer a new view on the events of the years 1759 and 1760. However, some of

[187] *Tsai,* Trading for Tea, 54.
[188] See ibid, 55-57.
[189] Ibid.

the older literature contains clues to a different interpretation of what happened between 1757 and 1760. Yet Morse's report about the Emperor's edict contains the following:

> "*The local officers at Canton had considerable influence with the authorities at Pekin, and as they had experienced the advantages derived from the increase of the foreign trade, they were naturally anxious to monopolize it.*[190]

Tsai himself mentions the following:

> "*Because of the fear that the EIC's trade with China would be diverted towards the northern ports, thus undermining the interests of the Canton administration, especially its revenues, the Canton customs office in 1757 petitioned the Imperial Court to double the customs duties at Ningpo. Consequently, a high rate of the customs duties was soon imposed, together with other regulations, at the port of Ningpo. The petition received a quick and positive response from the Court, which might be attributed to a bribe of 2,000 taels given to the high-ranking officers in Peking by Canton officials. However, it was certainly in connection with the issue of the "Canton interest'. When tea and raw silk were exported from Canton, they first had to be carried overland from the producing regions to Canton which, with many inland revenue customs on the way, always produced a considerable revenue for both the local Government and the Imperial Court."*[191]

Both statements indicate a certain involvement of the Canton agents with the prohibition of trade at other ports. Tsai also explicitly mentions the central government's interest in raising custom duties during the overland transport of tea and silk. Those are the first soft indicators that factors other than Flint's offences against the law were more important for the official foundation of the Canton System. At this very point, the EIC's attempts, as demonstrated in Flint's journeys to Ningpo, heavily threatened the "Canton interest". The Hong merchants were highly specialized on the European trade and therefore depended on it.[192]

If the Europeans were allowed to open trade with another Chinese port, it must have been obvious for all participants that the Canton System would suffer greatly. If Canton lost its monopoly, most merchants would lose their basis of transaction, and due to their debts to foreigners, face bankruptcy. Further, officials would lose a great deal of their income, and due to the declining tax income, their reputation before the Emperor. Thus, for a lot of merchants and officials their entire existence was at stake. This picture of the Canton System's situation around 1755 sheds a new light on the Emperor's edicts in 1757 and 1759, and gives us the

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[190] *Morse*, Chronicles Vol. I, 297.
[191] *Tsai,* Trading for Tea, 53.
[192] See *Cheong,* Hong merchants of Canton, 79f.

option, in combination with the hints provided in the literature above, to accept a different explanation. Thus, I do not interpret the Emperor's ban of trade to Canton as an *outcome* of the Flint Affair. Rather, the Canton merchants and officials used Flint's attempts as an *occasion* to heavily lobby in favour of the "Canton interest" before the Emperor. Tsai mentions a bribe of 2.000 taels, given to Beijing bureaucrats to levy high taxes on the Ningpo trading port. Morse hints in the same direction. Immanuel Hsü mentions:

> "*The governor-general at Canton, fearful of deflection of trade to the north, petitioned the court in 1757 to increase the duties at Ningpo 100 percent.*[…] *Furthermore, a substantial portion of the Canton populace traditionally lived on foreign trade; any shift of commerce to the north would seriously jeopardize their livelihood. Weighing the considerations, the court decided to increase the customs duties at Ningpo and the other ports, making them enough heavier than at Canton to discourage future trade.* […] *It was a* de facto *if not* de jure *prohibition of trade in the north.*[193]

Thus, I think the available circumstantial evidence points in the direction that the commercial interest of the Chinese benefiters of the Canton System was what caused the ban to Canton, rather than a political restriction against foreigners undertaken by the Emperor independently. Canton paid the Emperor for an official monopoly and thus ousted competing ports in 1757. This decision was assumingly oiled by the central government's interest in raising taxes. Flint's offences against the law in 1759 forced the emperor to set in stone what had already been the economic reality. Hence, it shall be argued that it was not in the government's interest to control the foreigners responsible for the ban, but hard, real economic facts. The Chinese government was not as restrictive and economically uninterested as it is described in the bulk of literature. Considering the sheer extent of the empire and the ignorance of high Chinese officials for the Europeans, it needs to be stated that the impact of the small Flint Affair was always, overestimated from a European perspective and has been wrongly used as a case study of how important the European role was in Chinese history.

As pointed out above, the role of the Flint Affair in the forging of the Canton System needs to be rethought.

The same is true for the foundation of the Co-hong in 1760. The small Flint *Incident* is usually cited as the reason for tighter restrictions and mechanism of control installed by the Chinese government. But is that really true? The new information provided by van Dyke also shows the foundation of the Hong merchant guilt in a different light.

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[193] Immanuel C. *Hsü*, The Rise of Modern China (New York 2000), 140f.

During the second half of the 1750s, the Canton System faced a hard time due to the Seven Years War between European powers. The number of ships arriving at Canton each year declined remarkably.[194] In 1758 the EIC exported one million pounds of tea less than in the year before, a reduction of almost a quarter. Only half the amount of silk and chinaware respectively were bought on the Canton market compared to 1757! The value of total imports from China declined more than £100.000. That was about a third! [195] Conceivably, this must have brought all Hongs great financial losses. Moreover, in 1758, Beaukeequa being one of the richest, most active and respectable Hong merchants of Canton, died unexpectedly. Very soon after his death, it was discovered that he owed up to 200.000 taels to European merchants and the Chinese government. His debts with the EIC may have been about 50.000 taels. In addition, his tax debts seem to amount to more than 40.000 taels![196] Even though we do not know why exactly Beaukeequa failed,[197] we do know his failure was the first large-scale failure in the history of the Canton System and it forced the government to intervene. To meet his debts, his possessions were seized and sold. Since this alone could not repay the whole sum, his business partners, especially Swetia, were held responsible to pay off a part of the debt. The remaining sum was demanded from the Hong community. For this purpose, in 1759, a tax on tea was introduced to collect money to settle eventual upcoming debts. This fund was the first version of what later became the famous *consoo* fund.[198] Beaukeequa's fall shocked the entire system. Not only did it bring his partners to the brink of commercial abyss, it called the entire system into question.

Thus, around 1758, the Canton System was a staggering heavyweight boxer. The necessary centralisation of the market had revived European interests in circumventing Canton, the European war heavily impeded business and Beaukeequa's case further weakened the commercial society.[199] Thus, it hit the Canton System at a point of serious weakness. To prevent its downfall and to strengthen their own position, in 1758, three of the wealthiest families joined together to bear Beaukeequa's burden and assure foreigners as well as officials that they could maintain trade. For this purpose, Chetqua, son of Tan Suqua, Cai Hunqua and Swetia founded, granted by officials, the Triple Alliance.[200] This indeed was a clever move which enabled the alliance to become a "small cartel" and gain nearly 40% of total market

[194] See *van Dyke*, Merchants of Canton and Macao, 54; *Tsai,* Trading for Tea, 52f.
[195] See *Chaudhuri*, Trading World of Asia, 539, 546, 520, 510.
[196] *van Dyke*, Merchants of Canton and Macao, 144f.
[197] See ibid, 145f. Van Dyke gives some thought to this case but ultimately notices that key pieces are missing to complete this puzzle. To take a look at the very unfortunate trading season of 1757 might give us another piece of the puzzle why Beaukeequa failed.
[198] Ibid, 144.
[199] Presumably, the discovery of Beaukeequa's debts must have cast a shadow on Canton officials before the government since debts to foreigners were forbidden and it was the Canton official's task to realize this. Tsai reports that the Canton Hoppo was removed from his post in 1759 (*Tsai,* Trading for Tea, 55.) It could now be assumed the Hoppo was removed rather because of the Beaukeequa case than because of the Flint Affair.
[200] See *van Dyke*, Merchants of Canton and Macao, 55.

share during the coming 14 years![201] However, it greatly moved the balance of the system in their favour and strongly dissatisfied competing Hong merchants. Balance was at all times a very important factor for keeping the Canton System alive. With one party or group dominating commerce, prices would cease to be market-determined, and foreigners were discouraged by the deteriorating situation. It had been in the interest of officials since the early days of the Canton trade to maintain competition. So, even though the Triple Alliance would serve its members very well, it was another factor that rather threatened than supported the system. For the purpose of bringing balance back into the system (which, of course, meant to win back a greater market share for themselves), two Hong merchants outside the Triple Alliance, Poankeequa and Swequa, suggested the foundation of a licensed group before Canton officials "*that would make certain the partners did not monopolize any part of the commerce. To bring more control over advances and suppliers, the members of the Co-hong would be limited to ten houses.*"[202] Further, officials would be represented in the new society. Since this suggestion offered a good solution to the commercial and economic issues that the Canton System had struggled with during the 1750s and answered official matters as well, it was established in 1760. A capital stock of 74.000 taels was raised by the ten families with contributions according to their respective financial situation. To keep diverging interests within the Co-hong balanced, Poankeequa was made President whereas Chetqua and Swetia, members of the Triple alliance that continued to exist, were made Treasurer and Tax Accountant respectively.[203] Still, even officially forbidden, merchants outside the Co-hong managed to continue their businesses with foreigners as they had done before, without being Hong merchants.[204] This is another hint that the main motivation behind introducing the Co-hong was an interest in maintaining competition, not in tightening control. More people active in trade, made it more difficult to be overlooked and observed. Thus, it becomes more and more visible that the Co-hong was initially founded for two purposes: first, to solve the commercial problem of underfinancing of the Hong merchants which had become obvious in 1747 the latest and had grown during the 1750s. Secondly, its purpose was to protect the merchant community from individual bankruptcy. The Co-hong enabled the Hong community to standardize advance payments and contracts, which was very important for the control of, and access to, the hinterland production of sales goods. This made business smoother, meaning it was much more reliable and predictable. It gave the merchants a better position in negotiations and made sure not only business partners had to vouch for each other, but also

[201] *van Dyke*, Merchants of Canton and Macao, 55.
[202] Ibid, 56. See also *Hsü*, Rise of modern China, 145.
[203] *van Dyke*, Merchants of Canton and Macao, 57, Table 3.2
[204] See ibid, 56f.

that the Hongs secured each other concertedly. "*This multi-layered system of checks and balances provided more security to merchants, but, at the same time, ensured that competition was maintained on all levels*."[205] By founding the Co-hong, all the merchants took a seat in the same boat.

Thus, the reasons to found this society were overwhelmingly economical and self-invented by the Canton merchants. Whether the Emperor did, or did not know about the economic necessity of the Co-hong, remains a mystery. Canton agents might have tricked him by assuring him, it would support the maintenance of "peace and security". The Co-hong was a reform initiated from the bottom and not by the government. It served mainly economical needs, and thoughts of control were secondary. The Flint Incident did, if anything, play only a minor role in its establishment.

The previous pages have now argued for a relatively new interpretation of the official foundation of the Canton System. Neither was the Flint Incident the causal event responsible for the ban to Canton, nor did it lead to the foundation of the famous Co-hong. None of the events were restrictive impositions on a fending-but-repressed merchant community, but self-invented and demanded, reasonable solutions for problems that had emerged during the decade. Within the limits of official control, the merchant's community in Canton was at this point in time, amazingly free, agile and able to answer changes in the market. Further, these changes were again outcomes of the struggle for control over foreign trade. The official granting of the Canton monopoly in 1757, resulted from an intra-national struggle for the domination of the European trade with other Chinese ports that Canton agents had assumingly heavily lobbied for. The foundation of the Co-hong was a result of a struggle for market shares within the Canton System that had started in 1751, and culminated in the contention between the Triple Alliance and powerful Hong merchant Poankeequa in 1759/60. Thus, again, it was the struggle for control of foreign trade between Chinese groups that made the history of the Canton System. However, the initial event that got the ball rolling was indeed the change in tea taxes in Britain in 1747, which enabled the EIC to expand its exports from Canton. In the medium term of not even one and a half decades, this alteration of taxes at the one end of Eurasia caused the modification of the Canton System at the other side of the continent. Unwillingly and unknowingly, it was the condition of the European market and the British tax policy that initiated the official Canton System.

[205] *van Dyke*, Merchants of Canton and Macao, 59.

# 2. The Tea and Opium Circle

## 2.1 1760s – 1780: The Truck Crisis

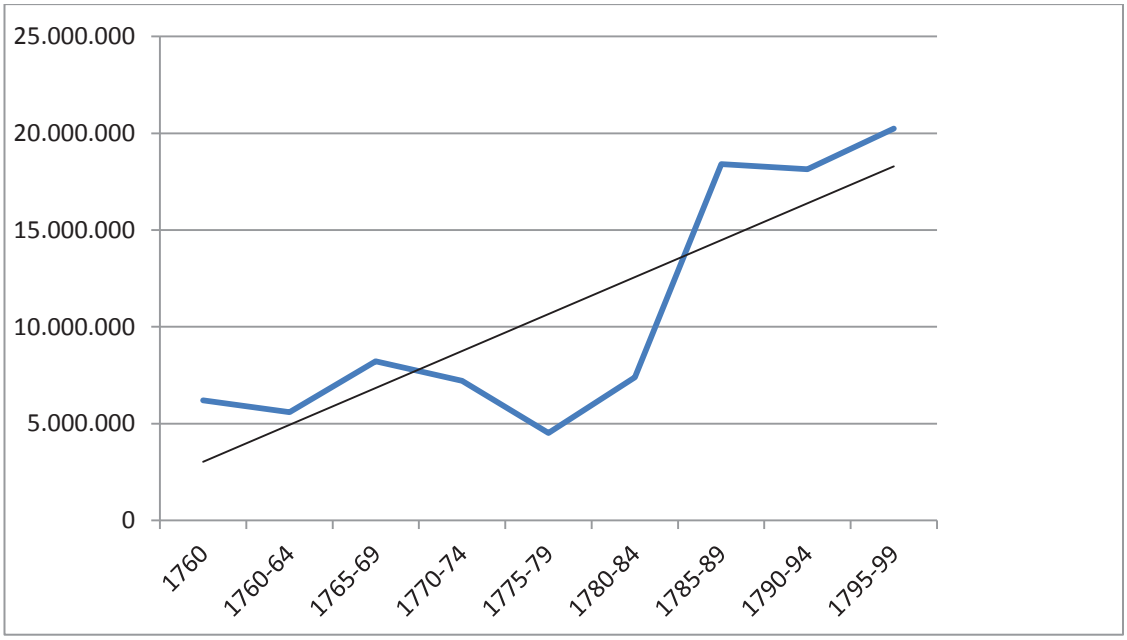
The second part of this work will follow the events of the second half of the 18th century. Compared to the first fifty years, the period of ca. 1757-1815 was without doubt a period of major international and global conflicts, which had considerable effects on the overall global trade, and in particlar on British-Chinese commerce. With the Seven Years war 1757-1763, the Conquest of India after 1757, the American War of Independence 1775-1783 and the Napoleonic Wars 1803-1815, Britain was involved in all the major wars of European powers of that time. The changes in the distribution of global power and the effects of permanent warfare on the financial situation of both the British state and Company were very important for the British trade with Asia, and would by the end of the period changed the latter (or both) greatly. In times of conflict, silver became even more precious and its "drain" to Asia even more undesirable. The need to find another medium of exchange replacing silver became more urgent than it had been before. Only major changes in the distribution of global influence would be able to provide a solution to the British problem. It shall be argued in this part that those major changes happened between 1760 and about 1790, altering the patterns of Sino-British trade fundamentally in favour of the Europeans, toppling a system that had just grown with age, and eventually escalating in what has become known as the Opium Wars of the mid-19th century.

Assumingly, the very decade of the Co-hong might have been the time of the greatest equality among Chinese and European traders the Canton System has ever experienced. Due to the tight cooperation of the Hongs, the basics of the business such as advances, contracts and loans were worked out commonly and thus standardized, perfecting the interplay between Europeans, Hongs and the inland suppliers. Thus making trade smooth and enabling further growth. Moreover, the close alliances between the Chinese merchant houses gave them better leverage positions than they had had before. Zhuang Guotu suggests a rise in purchase prices of tea in Canton during 1763-69 compared to the years before.[206] Considering the growing overall volume of tea traded and the commercial improvements, this could indicate a better negotiation position of Hong merchants rather than a shortage of tea. At the same time, the opposition between the Triple Alliance and Poankeequa and party remained competitive at a high level, maintaining a good business situation for Europeans. Even when prices rose, they

[206] *Guotu,* Tea, Silver, Opium and War, 124.

did not rise to unknown heights, unsatisfactory for European traders. In 1764, to further ensure a competitive trade environment, inland merchants were granted a third of the tea trade.[207] Generally, the foundation of the Co-hong had served its purpose very well. Balance between the leading parties among Chinese merchants was maintained, and the problem of underfinancing which had characterised the previous decade, was dealt with. Inland advances could be expanded and production standardized. The Canton System was, within its official limits, perfected. Business was booming.

Figure 3: EIC Tea exports, 1760-1799 in lbs, in five-year-columns[208]




After the foundation of the Co-hong, trade grew from some four million pounds of tea exported by the English company in 1759, to more than six million in 1760, and an annual average of more than eight million pounds of tea during the second half of the 1760s. The entire trade volume rose from 270.000 piculs in 1763 to 320.000 piculs six years later.[209] Interestingly, declining tea taxes in Britain did not cause this increase in British purchases. In fact, they were rising at this time due to a leap in the consumption of tea in the domestic market. [210] Between 1750 and 1760, annual per capita consumption of tea in Britain rose with about a half, from 0.41 lbs. to 0.61 lbs., while prices fell considerably.[211] Thus, while the growth of British-China trade had been a subject of market displacement and fiscal policy, this time, and maybe for the first time, growth was driven by demand.

During the existence of the guild, the Triple Alliance handled about one third of the entire trade volume with an annual average turnover of about 2.7 million taels in the six years of

[207] *van Dyke*, Merchants of Canton and Macao, 58.
[208] Source: *Tsai,* Trading for Tea,73, converted into lbs.
[209] *van Dyke*, Merchants of Canton and Macao, 60.
[210] *Guotu,* Tea, Silver, Opium and War, 123.
[211] Ibid, 127.

1763-64 and 1766-69.[212] Chetqua's house, the Guangshun Hang, likely had a turnover of about one million taels per year, with an annual income of maybe more than 200.000 taels.[213] Despite the expansion of the export trade and the Triple Alliance's success in commanding a very good deal of the market by the second half of the '60s, the tide turned.

In 1765, Chetqua had to take over a relative's debts to foreigners and the government, which caused constant pressure on his accounts and contributed to his decline.[214] In 1767 he was accused of smuggling and penalized a fee. In the next year, one of his brothers died, and being indebted nearly 190.000 taels before the EIC after he had agreed to truck-trade EIC imports against tea, he suffered considerably from this deal. Later that year, Chetqua fell seriously ill which greatly impeded trade. In 1770, there is evidence for some trade in opium of the Guangshun Hang. In 1771, Chetqua died and his brother Tinqua took over the business. Around the same time, the British company reported that the tea delivery of the 1769 season had been of bad quality and claimed compensation. Losing trust in one of the oldest merchant houses meant asking for extended loans from Europeans to maintain business. Due to the heavy debt service, Tinqua was in severe financial trouble by 1774. He died in the next year, leaving his brother Coqua in charge. By 1777, Coqua ran out of ready money. A few months later, at the beginning of 1778, the Guangshun Hang was after 62 years in business, bankrupt and closed. The family had accumulated a debt of about 800.000 taels (£266.000) to companies, and another one million taels to private merchants! The sum was distributed to the merchant community.[215]

The decline of the second powerful family of the Triple Alliance, the Yifeng Hang under Cai Hunqua's leadership took place nearly coevally. During 1758-1770, the family's business was nearly as large as that of the Guangshun Hang with annual exports worth about 800.000 taels. On May 1st, 1770, Cai Hunqua died causing chaos and uncertainty within the merchant's community. His second son, Anqua, took his seat. In 1771, Anqua agreed to take a share of English woollen as payment for his tea contracts. In 1773, he fell behind his debt repayments. After negotiations, Poankeequa offered to take over some of Anqua's debts in exchange for a share of his trade. This further diminished Anqua's options for profit making. In 1774, he was indebted by 500.000 taels to foreign merchants. At the beginning of the next year, he died, owing about 800.000 taels! Even though Semqua, Cai Hunqua's silent partner,[216] managed to stay in business for a couple of years, the family's time had come to an end. Semqua's main

[212] *van Dyke*, Merchants of Canton and Macao, Appendix 3B, 254f.
[213] Ibid, 93.
[214] Ibid, 94f.
[215] Ibid, 97-102, 133.
[216] Indeed, Semqua appears to have been the actual owner of the Yifeng Hang, but Cai Hunqua and sons were the main managers

purpose was to repay debts. In 1782, he was finally bankrupt and the house was closed the following year.[217]

The history of the Yan family during the 1770s sounds similar. In 1763 Ingsia had taken over the leadership of the Taihe Hang his father Texia had founded, without any major business interruption. He did considerable trade with both VOC and EIC during the '70s. By 1772, the family's annual export trade was worth about 950.000 taels. However, by 1774, the tide was turning for Ingsia, too. In this season, he also agreed to accept a quarter of EIC woollens as payment for tea and, and suffered greatly, falling about 22.000 taels into debt with the British. The next year, the bankruptcy of Anqua seriously weakened the Yan family since they had to cover the Yifeng Hang's debts. Consequently, Ingsia struggled with impending bankruptcy from that time on. By 1778, he owed about 125.000 taels to both the English company and private traders. In this very year, the second family of the Triple Alliance was broke. Again, as their close partner, a good deal of their debts was laid on Ingsia's shoulders, in addition to his own and the Yifeng Hang's debt service. This was clearly too much. Reported in 1780, Ingsia's debts to private British and company supercargoes alone, amounted to more than one million tael![218] In the late 1779, the Taihe Hang was finished. Ingsia was dispossessed in order to repay the mountain of debt the three families had accumulated. Ingsia himself was exiled. Even though one of his brothers was allowed to continue trading and trying to repay the families' loans, he failed within only a few years.[219]

The fourth most important party of the 1760s and 1770s was Poankeequa and his associates. Unfortunately, information about him is much scarcer than that of the Triple Alliance. Still, we know that he was the main counterpart of the Alliance during the Co-hong's time. Even though there is no exact data for the trade of Poankeequa and associates, he and his associates might have had a similar share to that of to the Alliance since he is always said to be the Alliance's first adversary.[220] Further, as he was the political leader of the Co-hong responsible for the guild's relation to Canton top officials, he was to present expensive gifts to secure their goodwill. Even though he often complained about the costs this task brought him, it appears as though he did a good job as he grew very close with the highest rank of Canton authorities during those years.[221] Immanuel Hsü speaks of "*the rich hong merchant Puankhequa*", and lists him among the "*richest and most famous* [Hong merchants] *during the 18th and early 19th*

[217] *van Dyke*, Merchants of Canton and Macao, 125-134.
[218] H. B. *Morse*, Britain and the China Trade. The Chronicles of the East India Company Trading to China 1635-1834 Vol. II (London/ New York 2000), 54.
[219] *van Dyke*, Merchants of Canton and Macao, 156-161.
[220] See. e.g. *van Dyke*, Merchants of Canton and Macao, 58.
[221] Ibid, 61.

*centuries*"[222]. Further, he indicates that Puankeequa made official donations of 200.00 taels in 1773, and of 300.000 taels in 1787.[223] So, even though we do not know how much he spent on luxury gifts, it is likely that these sums were considerable. Consequently, by implication, his trade must have been of a certain dimension to enable him to afford those gifts. Considering the fact that the leadership of the Co-hong was fairly balanced between Poankeequa and the Triple Alliance, it suggests that both parties might have had a comparable share of the trade. When Cai Hunqua died in 1770, the balance between the competing parties within the Co-hong died with him. None of the remaining merchants could fill his shoes and become Poankeequa's new counterpart. At the same time, the economic situation of the Triple Alliance started to worsen, too, as mentioned above. Thus, Poankeequa would become the single dominant force of the guild and threaten to control it. The guild, originally founded to maintain competition among the Hongs, had now become Poankeequa's means to establish a monopoly. Again, this was of least interest to both the officials and the other merchants. Consequently, in 1771, the Co-hong was abolished by imperial order.[224]

Van Dykes reasoning about the effects of the end of the Co-hong is somewhat contradictory. At one point, he argues:

"[…] *when Cai Hunqua died on 1 May 1770, not only was the triple alliance thrown into chaos, but the Co-hong was thrown out of balance.* […] *The consortium soon began to deteriorate while Puankeequa gained more control.* […] *By the end of the season* [1770]*, it was clear that, if the Co-hong continued, Poankeequa would be running everything.* […] *It was obvious that something needed to be done to bring balance back into the equation. Otherwise, growth would again be threatened.*"[225]

Here, he argues that, if the Co-hong had continued to exist, trade and Poankeequa's competitors would have suffered from the changed situation. However, elsewhere, he writes: "*The new competitive environment that emerged after the Co-hong led to the weakening of many houses.*"[226] Following, he describes the fall of various smaller houses, which through their close connection with the Triple Alliance eventually weakened the three great houses and contributed to their liquidation. First, it was not the abolition of the Co-hong that weakened the Alliance's members, as van Dyke suggests. It was the weakness of the Triple Alliance that changed the balance within the guild and made its dissolution necessary. Still, his point seems to be only one part of the explanation as to why so many well-established

[222] *Hsü,* The Rise of Modern China, 145, 146.
[223] Ibid. However, considered the annual income of a family of the Triple Alliance about 200.000 taels, these sums appear to be too high to be raised by Puankeequa alone. Maybe the donations were rather raised by the merchants collectively and commited by Puankeequa as the community's leading merchant and/or political representative.
[224] *van Dyke*, Merchants of Canton and Macao, 62.
[225] *van Dyke*, Merchants of Canton and Macao, 62.
[226] Ibid, 218.

houses failed during the 1770s. Surely, after the Co-hong ended, the Hong merchants were not forced to agree upon prices and advances anymore. This must have handicapped smaller merchant firms, who did not have the financial means to contract huge tea deliveries, and thus could not compete with the lower prices the greater Hongs could offer. However, smaller firms had managed to survive in a very competitive commercial environment before the Co-hong had been set into operation. Secondly, during the years of the guild's existence and the fixing of prices etc., those smaller firms had had the chance to establish themselves on the market, and thus gain a certain pool and the trust of suppliers and European clients. Since trust played a very important role, their nearly immediate failure after the abolishment of the Co-hong cannot be explained entirely by a "new competitive environment". Business had been competitive before, too. The key to understanding the dramatic events of the 1770s is to look at the global scale and the changing pattern of English trade with Canton. However promising the economic situation in Canton looked like at the beginning 1760s, it coincided with an event that would soon change the basic trade patterns of the whole China trade for the British company; the conquest of Bengal in 1757. By the end of the century, this elemental alteration of global political and economic power in favour of the British, had crucial effects on the Canton System. The "*events in Bengal during the 1760s caused the whole nature and purpose of the East India trade to be altered",* as Bowen argues.[227] This, the Court of Directors enthusiastic efforts to substitute the purchasing means for tea, British bullion, with the newly gathered Bengal income. The golden age of opium had not yet arrived. Still, the 1760s and 1770s were a time of transition between the circles. In the following section, this transition and its effects shall be described.

After the British had won dominance over Bengal in 1757 and gained control over its tax incomes in 1764, the Court of Directors quickly realized that this could be the company's way out of the offences against mercantilist politics which they had not been able to prevent during the last half of a century. The British had never found any other substantial means other than silver to engage in the Canton trade. However, after 1757, bullion exports from England decreased sensibly until the late 1760s, with the exception of the years 1764/65 when the EIC had to fight an Indian alliance to maintain its control over Bengal.[228] In the decade of 1757-1767 the company sent silver from India to China on a regular basis. In general this development must have caused some euphoria among the company's top managers. During the early and mid-1760s, the fundamental problem of financing the China trade seemed to have been solved by the India presidencies' incomes. Silver transports from Britain would be

[227] Huw V. *Bowen*, The Business of Empire. The East India Company and Imperial Britain, 1756 – 1833 (Cambridge 2006), 219.
[228] See *Tsai,* Trading for Tea,, 118 and 120.

stopped or greatly reduced in those years and mercantilist critics of the company would be silenced. But eventually, the new policy of paying the China trade with Indian taxes did fail. The silver sent to China was reduced by about half.[229] The two years of military conflict proved the Bengal tax income insufficient to supply both the company's new costs of governing its Indian territory and the China trade. When the EIC's costs of ruling Bengal again increased significantly from about 1767 due to two years of war with Mysore and a dramatic famine in 1769 and 1770, the Bengal province was not able to supply enough bullion to pay for Chinese goods.[230] The Court of Directors had to acknowledge, "*that it could not afford to abandon its long-established commercial practices in favor of a complete dependence on surpluses derived from revenue collected*."[231] Again, bullion had to be sent from Britain to China between 1768 and 1771.[232]

In the decade of 1757-1767, the company sent silver from India to China on a regular basis. In 1764, about 300.000 taels (about £100.000) were collectively sent to China from Bombay and Madras, increasing EIC's budget for the China trade nearly about a third![233] In 1765/66, silver from Bengal worth about 290.000 taels arrived in Canton, while the year 1767 might have seen the largest of these remittances, with bullion worth more than 720.000 taels being sent to Canton. That was nearly as much as the largest amount of silver ever to be sent from Britain to China by the EIC in one single year previous to 1760![234] In 1768, India supplied the China trade with 520.000 taels, and between 1769 and 1771 a total of £223.000 was sent to Canton.[235] According to these sources, a total support of about £830.000 was sent from India to China during 1760-1771. So, even though the amount of silver as share of total EIC exports to Asia decreased considerably to some 20 per cent during the 1760s,[236] some of this reduction of the total silver arriving in Canton was eased by the Indian supply. Despite of the subcontinent's money, the total amount of silver deployed for the British-China trade likely diminished. Whereas an average number of nearly £200.000 had reached Canton from London during 1750-59,[237] that average had declined to £130.000 per year during 1760-71.[238] Additionally, according to the available figures above, Indian silver arriving at Canton might have averaged some £70.000 per year between 1760 and 1771.[239] That would equal a total

[229] See Figure 4 below.
[230] Patrick *Tuck*, Introduction. In: Tuck (ed.): The East India Company: 1600-1858 Vol.3 (London 1998), viii.
[231] Bowen, Revenue and Reform. The Indian problem in British politics, 1757-1773 (Cambridge 2002), 111.
[232] *Tsai,* Trading for Tea, 120.
[233] Ibid, 120, 122.
[234] According to Tsai, the greatest delivery of bullion from Britain to China was sent in 1753, worth about £276.000 (= ca. 828.000 taels). See *Tsai,* Trading for Tea, 118, 120.
[235] All numbers of Indian silver deliveries to China taken from: Ibid, 122.
[236] H.V. *Bowen*, Bullion for Trade, War and Debt Relief. British Movements of Silver to, around, and from Asia, 1760-1833. In: Modern Asian Studies Vol. 44 No. 3 (2010), Table 2, 462.
[237] See *Tsai,* Trading for Tea,, 118, average calculated.
[238] See ibid, 120, average calculated. See also *Bowen*, Bullion for Trade, War and Debt Relief, 462.
[239] Calculation: Tls. 300.000+Tls. 290.000+ Tls.720.000+520.000/3= £610.000.

supply of silver of some £200.000 sent to Canton each year during that decade, and thus suggest no actual *absolute* reduction. But as shown above, more tea was bought by the EIC during those years and maybe at higher prices. Thus, with about the same amount of silver being brought to Canton aboard company ships, the *relative* share of silver deployed as tea payment, seems to have actually decreased. So, while the EIC's tea export grew nearly threefold, the silver supply remained steady. Chung lists the total EIC investment for tea at about £4.3 million 1761-1770,[240] implying an annual average of £430.000. If the above calculation is correct and EIC silver imports were about £200.000 per year, this would mean that only about half of the tea the British company bought was paid by silver![241] Tsai who computes that European goods during the period, 1762-1772 realized more than 50% of the total EIC Canton receipts further supports this argument.[242] While between 1710 and 1759 90% of the EIC's means of exchange for Asian products had been silver,[243] and between 1710 and 1739 merchandise had made an average of only almost 10% of all EIC exports to China, and 14.5% during the next twenty years up to 1759,[244] the equation was now balanced. Additionally, the English company had not only more or less accidentally managed to reduce its need for silver and found a way to replace a part of it, but the next decades would also reverse this picture that before silver had been the unbreakable fundament of the China trade. This is again illustrated in Figures 4 and 5 below.

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£610.000+£223.000/11= £ 69.416

Admittedly, we cannot be entirely sure of this numbers. The sources concerning silver differ (see below). Originally, the Court of Directors had ordered the Indian presidencies to supply an annual rate of £240.000 for the China trade, but soon found them incapable to do so (see ibid, 469f; *Tsai,* Trading for Tea, 122-126). Those annual amounts would have about equalled London's entire annual remittances during the 1750s (see ibid, 118).

[240] Tan *Chung,* The Britain-China-India Trade Triangle (1771-1840). In: Indian Economic & Social History Review No. 11 (October 1974), 412.

[241] However, Morse provides figures greatly differing from the above calculations, stating total "*Remittances from other Settlements*" of nearly £2 million during 1762-1771 (*Morse*, Chronicles Vol. I, 306: "General State of Receipts and Disbursements at China made up by order of the Committee of Secretary of the House of Commons, 1773."). If these figures are correct, meaning an average of £200.000 arriving in Canton in this period, the total amount of silver would likely have been increased in absolute terms, equalling to more than £320.000 being imported into Canton during the 1760s. That again would mean that about three quarters of the tea was paid by silver and indicate a far less drastic change at least during the 1760s.

[242] *Tsai,* Trading for Tea, Table 4.9, 214.

[243] *Tsai,* Trading for Tea, 117.

[244] Calculation based on: ibid, Table 3.1, 118. However, it is noteworthy that Tsai's table notes no bullion and merchandise exports to China for 1747, the year when tea exports grew dramatically. This must be wrong most likely since I cannot think of another source of income that could have paid the enormous amount of tea exported.

Figure 4: Commodities and bullion exports by the EIC, 1750-1799[245]

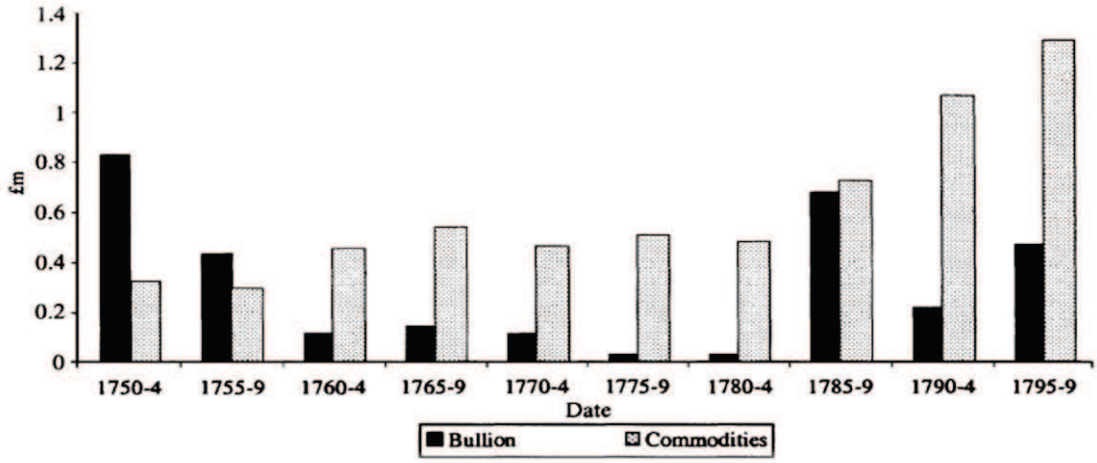
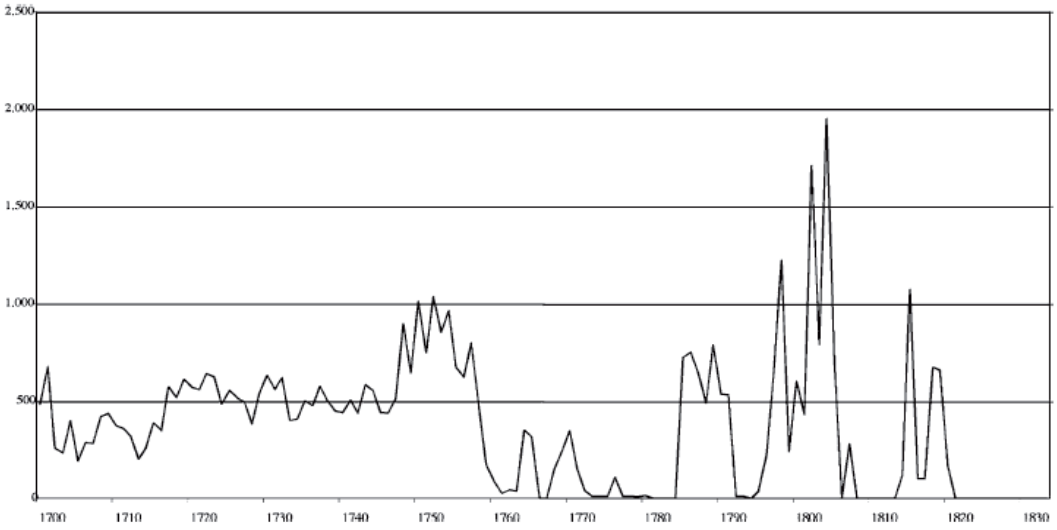



Figure 5: EIC exports of silver to Asia 1700-1833, in £1000s[246]




As it can be seen in both figures, EIC silver exports from Europe greatly diminished and reached a very low level in the period 1760-1784. Furthermore, the share of exported commodities rose visibly between 1755-59 and 1760-64, and remained on this level until it rose even more after 1784. The trade in commodities grew to become more important during this quarter of the century. In those years, truck and not silver, ruled the business. Data provided by Chaudhuri shows that the total value of EIC exports from India doubled from

[245] Source: *Bowen*, Sinews of Trade and Empire: The Supply of Commodity Exports to the East India Company during the Late Eighteenth Century, In: The Economic History Review, New Series Vol. 55 No. 3 (Aug. 2002), 470.
[246] Taken from: *Bowen*, Bullion for Trade, War, and Debt Relief, 458.

1757/58 to 1757/59, to about three million Rupees (circa 900.000 taels or £300.000) and rising to four million Rupees in 1766.[247]

Most surprisingly, the 1760s and 1770s were far from being the company's glorious times. In 1773, the Honourable Company nearly faced bankruptcy and had to be saved by the state.[248] Thus, the 1770s was especially a time of great commercial trouble for both the Chinese and the British monopolists. How was that possible?

In a very detailed and interesting analysis, Bowen lists two major problems of that time; mismanagement and war. He argues that the Court of Directors had made "*serious strategic mistakes especially before 1785"*[249] and speaks of an "*ill-advised dash for growth, in which they sought to take immediate advantage of the company's military success in Bengal by utilising local revenue surpluses for increased levels of investment in Indian and Chinese goods for export to Britain"*[250] leading to "*a growing scarcity of specie in India* [that] *obliged the Company to rely increasingly heavily upon private 'country' traders for the supply of liquid funds to the supercargoes at Canton.*"[251] Further, he argues that the acquisition of Indian tax incomes had lead the managers of the EIC to forget the basic patterns of the Company's business and profits, which was buying cheap in Asia and selling dear in Europe "*as commercial judgements became clouded in the years immediately following the acquisition of the diwani.* […] *The directors set aside their long-established calculations and they paid surprisingly little attention to the need to boost sales* [, leading to] *the company's failure to convert a greatly expanded volume of imports into sustained growth of sale income.*"[252]

Bowen then concludes: "*The directors had made the funding of the Company's trade almost entirely dependent on the Bengal revenues, and when those revenues failed to deliver the expected returns the Company's remodelled commercial and financial system moved steadily towards the point of collapse.*"[253]

Second, he argues that the overall economic situation had drastically worsened during the 1770s due to the American War of Independence, to the extent that sales profits on all goods diminished from 57% in 1761-65 to only nine per cent in 1777-79, constituting a great sales crisis 1760-1785.[254]

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[247] K.N. *Chaudhuri*, Foreign Trade and Balance of Payments 1757-1947. In: The Cambridge Economic History of India. Vol. 2: c. 1757-c.1970 (Cambridge 1983), 823f.
[248] See. e.g. *Bowen*, Business of Empire, 35f.
[249] Ibid, 221.
[250] Ibid, 222.
[251] P.J. *Marshall*, East Indian fortunes: the British in Bengal in the eighteenth century (Oxford, 1976), 97-99. Cited in: *Bowen*, Business of Empire, 224.
[252] *Bowen*, Business of Empire, 236-37.
[253] *Bowen*, Business of Empire, 228.
[254] Ibid, 240.

The increasing efforts to diminish silver exports from Britain and use British goods and Indian silver to purchase Chinese goods were in retrospect, a sign of weakness, of mismanagement, and maybe a little megalomania among the Company's Directors. They tried to impose their will upon inter-continental systems of exchange, losing the merchant's perspective, and trying to command a complex system of trade. This nearly ruined the company. The turn to private parties in India to invest in the Canton trade and provide the means to purchase the Company's most existential source of profits, the tea trade, was a rather desperate attempt to maintain this trade and its vital profits, than an ingenious and well-thought out plan to replace British silver with other means of payment in Canton.

The rise of the private trade from India to China from around 1760 was thus an outcome of heavy mistakes made by the Court of Directors, and brought about huge financial turmoil to the Company. With its inability to provide enough means of exchange by the British goods sent to China and the bad financial state of its Indian provinces at the end of the decade, the importance of the "country" trade for the Canton System grew rapidly. However, the role and meaning of these country traders changed considerably, too. In the first two decades after the Battle of Plassey, country traders mainly acted as suppliers of Indian goods or as mere financial investors of the China trade. The time of opium had not yet come. Even though "[…] *these ships probably always carried some opium, it was not the mainstay of their trade until the 1780s.*"[255] With the Indian presidencies' growing inability to provide the demanded silver supplies for the China trade "*the Company's officials in India turned to private merchants to undertake the transfer of silver to Canton. This was done by offering bills on London to individuals in exchange for money privately shipped to China* […]."[256] Furthermore, the Company's need for foreign money seems to have been very urgent since it increased its rates of exchange on bills in Canton in 1771, only two years after they were offered for the first time.[257] Additionally, the Company tried to raise private money in India, too.[258] However, it seems that during this very period, the real country *trade* was only of secondary importance for the providers of funds in Canton. According to Tsai and others, in 1769/70-1784/85 country traders paid a total of nearly £3.5 million into the Canton account against bills of exchange.[259] Tsai himself offers a table showing the trade balance of the country trade between 1764 and 1805.[260] According to this account, a total of approximately

[255] Carl A. *Trocki*, Opium, Empire and the Global Political Economy. A Study of the Asian opium trade 1750 – 1950 (London 1999), 51.
[256] *Bowen*, Bullion for War, Trade and Debt Relief, 470.
[257] *Tsai,* Trading for Tea, 173.
[258] Ibid, 174.
[259] See e.g. ibid, 176.
[260] See ibid, 171, Table 4.4.

£725.000 was paid into the Canton cash box 1769/70-1784/85.[261] If these figures are correct, this would mean that only about 20% of the total sum invested by country traders were actual trade profits, indicating that maybe 80% of private country investment were mere financial transactions. In contrast, the actual trade balance of the country trade was about £7.2 million in 1784/85-1799/1800, whereas the total country investment was about £7.5 million, indicating a growth in real trade in commodities.[262]

Additionally, considering that the total EIC receipts 1762-1781 amounted to about £9.2 million, country merchants might have financed more than a third of the Company's Canton trade in that period.[263] Tsai calculates that more than 56% of the Canton Treasury's total receipts contained private investments during 1772/73-1780/81.[264] Thus, country merchants became the financers of tea by first sending money and later commodities to Canton and paying their profits into the company's accounts, then receiving bills exchangeable into cash in London or Calcutta. Morse provides figures of bills of exchange of England, which most likely indicate the amount of money paid into the Canton Treasury by country merchants. From the 1760s, the country merchants replaced EIC bullion sent from either Britain or India, and took over a very important role in supplying the British company with money to purchase its tea. "*Without the private merchants it would seem that the Company have had great difficulty in providing the means for transactions of the magnitude now common* […]".[265] Assumingly, those private merchants not only lent money to the company, but directly to Hong merchants as well. Morse presents an account of the Canton Hong's debts to private English investors and "*consignors resident in Indian settlements*", stating a total debt of more than 3.2 million taels for 1779.[266] With the declining influx of Company silver, the Hong merchants had to find a new source to supply their constant need for silver.

Indeed, private country merchants kept the Canton trade alive during those very difficult decades. However, with circa half of the payments for tea being trucking commodities, the Hong merchant's basis of profits was greatly weakened despite the private flows of silver into Canton. As often described, accepting European goods as payments for tea was a very risky business for Hong merchants. First, there was no substantial demand for, say English woollens, in the subtropical area of Canton. Second, since European ships all arrived at about the same time, the market was flooded with their manufacture, threatening to further reduce

[261] Balances for the period totalized.
[262] See *Tsai,* Trading for Tea, 171, Table 4.4 (balances totalized), 176.
[263] See ibid, 213, Table 4.8.
[264] Ibid, Table 4.9, 214.
[265] *Morse*, Chronicles Vol. II, 33.
[266] *Morse*, Chronicles Vol. II, 46.

profits at a given time.[267] Even though Hong merchants knew the risk of losing at truck deals, they were forced to accept European goods as exchange means. Not being granted a share of the tea trade in one season could mean being forced out of business. Through rolled-over loans from foreigners, the Hong's leverage position decreased with time. Tsai shows that, if truck was included in tea contracts, the Chinese merchants demanded higher prices for tea.[268] As mentioned before, Guotu indicates higher purchase prices during the 1760s.[269] As I have interpreted, this rise in tea prices as a sign of the Co-hong's increased leverage position, this could also be an indicator of the truck trade, and thus rather pointing out the complete opposite. However, by making truck a crucial condition to contract deals, European companies forced their commodities into the market. At this point, English and Hong merchant's needs totally diverged. As argued, truck often was a non-profit or losing bargain for the Chinese, silver was their main source of income. They needed their annual profits to send advancements for the next season inland (Europeans rarely advanced the full price of their tea contracts, during the 1760s, tea advancements were somewhere about two thirds of the entire primary costs),[270] to purchase gifts for officials or even to meet imperial demand for payments as well as for social expenditures.[271] Thus, when the Hong's base of profits was increasingly withdrawn through truck, they were forced to rely more and more on loans from foreigners to stay liquid. Indeed, all three houses of the Triple Alliance engaged in truck trade at the beginning of the 1770s, and increasingly took out loans.[272] At the end of the 1760s and the beginning of the 1770s, their business must have been a large bubble. Even though the three houses managed to turn over extensive amounts of tea and money, their liquidity vanished more and more, and their businesses purely based on a huge frame of loans and credits. This situation seems only to have worked due to the Triple Alliance's good credit with foreigners. Van Dyke, too, argues that "*the Yifeng Hang was already in decline before Cai Hunqua's passing. He was probably the factor keeping this information from surface. After his controlling hand was gone, the true status of the firm quickly emerged*".[273] Thus, Cai Hunqua's death set the ball rolling. With the discovery of his house's financial situation, trust in the Alliance vanished. The close relations of the three houses that had been so successful before now became a main factor of their failure, since the other houses had to take over the

[267] See. e.g. *van Dyke*, Merchants of Canton and Macao, 22; *Tsai,* Trading for Tea, 125.
[268] *Tsai,* Trading for Tea, 131f.
[269] See *Guotu,* Tea, Silver, Opium and War, 124.
[270] *van Dyke*, Merchants of Canton and Macao, 18.
[271] A note on truck trade: Most interestingly, trading in truck was on its own, not profitable for anyone – the opposite, the Company generally sold its European goods at loss in Canton and the Hong merchants theirselves mostly sold it at loss, too. It was a trade in which no participant made profits! Its importance for the Company was then an indirect one. Without selling goods in Canton, the EIC would have had to rely totally on borrowing foreign money to finance its tea purchases, for this money, interest had been due in Calcutta or London. Thus the loss of selling goods in Canton must have been cheaper for the Company than financing the entire trade with loans and serving these interests!
[272] See *van Dyke*, Merchants of Canton and Macao, 99, 127, 130,157.
[273] Ibid, 135.

debt when the Yifeng Hang was closed. These huge liabilities were a threat they could not bear. Thus, the firms of the Triple Alliance pulled each other into bankruptcy. I agree with Paul van Dyke when he suggests that the quick downfall of Cai Hunqua's family indicates that their business was suffering already before the firm's head died.

The economic base of the Hong merchants must have been a glasshouse from about the second half of the 1760s. This was caused by the pervert business situation that had developed with truck and country trade. While the Company's trade in European goods slowly dried out the Hong's profits, the country traders were a source of easy credits to maintain ready money. Those credits, though illegal, were acknowledged and secured by officials since they knew loans by foreigners were necessary to keep the business alive. The bubble had to burst eventually.

Still, it was not only the Hong's fault. It was the overall crisis of the English East India Company, bringing about the truck and country trade that was responsible for the Triple Alliance's bankruptcy in the decade after the Co-hong. It was the major changes in world trade, the British shift from silver to European and Indian truck imports that broke the Alliance's neck. Furthermore, the Hong merchant's dependency on foreign companies becomes more obvious. As has been shown for the crisis of the 1730s, the condition of the one market place greatly influenced the condition of the other. Changes at one end of this global exchange evidently caused alterations at the other end. The European and the Canton market were very closely connected with one another. Secondly, since monopolistic actors commanded the business, the state of one actor was crucial for the business of the other, too. The establishment of the Co-hong had secured and improved the Canton business situation, and enabled trade to grow. However, the system was near to collapse due to the bad condition of the other monopoly party, the EIC. During the 1760s and '70s, the English company was an unstructured mess. With the conquest of India it had changed from being a mere trading company to a colonial land power. Due to its financial troubles and the invitation of private capital, it additionally became a sort of a bank. What was it now? Obviously it took the managers of trade some time to cope with the greatly altered situation and to find a way to adjust their management and business. To sum up, the EIC's management and wartime crisis between about 1760 and 1785 had major impacts on the Canton business environment. By 1785, three of the oldest and most famous Hong houses, founders of the System and main players for decades, were bankrupt. The crisis had knocked out three economic heavyweight champions who had built up and dominated the Canton arena nearly from the very beginning,

and brought about the rise of the truck and opium trade that would drastically alter the basic patterns of Sino-British commerce.

It is then somewhat ironic that the major global economic changes and the foundation of the Britain-China-India Triangle did coincide with the perfection of the Canton System. At the point in history when European and Chinese actors had finally found and institutionalized a way to conduct business that suited all of them, the fundamental pattern of the Canton trade changed with the end of the silver circle. The dominance of trucking, arising at a great pace, was about to cause an imbalance in favour of the British. Consequently, a network of trade started to develop in the beginning 1760s which Tan Chung has called the "Britain-China-India Trade Triangle".[274] Only this global network gave the EIC, after a hundred and fifty years of trade with Asia, the option to replace silver as a means of payment for its China trade and recover from a dramatic financial situation. However, the establishment of India as an intermediate stage was at first a sign of the company's weakness. Only from about 1780, its directors learned how the country trade and benefits of Indian goods, especially opium, could be used to contribute to the Company's China trade. The pace by which Indian goods, first cotton, then increasingly opium, replaced silver, shows to some extent how successful this new way of conducting the Canton business became. The end of what Flynn and Giraldez called the "silver circle" would eventually topple the pillars of the Canton System. [275] Within not even twenty years, the commercial environment had fundamentally been altered. Indeed, the Canton trade would not have been able to survive upon the truck trade alone. Ironically, opium, being contraband, rescued the China trade in these years.

[274] *Chung*, The Britain-China-India Trade Triangle.
[275] See: *Flynn* and *Giraldez*: Cycles of Silver. Global Economic Unity through the Mid-Eighteenth Century. In: Journal of World History Vol. 13 No. 2 (Fall 2002), 391-427.

## 2.2 1780 – ca. 1800: Opium and the Country Trade

With time passing by and the EIC increasing and securing its control over India, the country merchants' role changed from financing the China trade to financing the rule over India. It was the great time of opium.

British efforts to control the production and sale of opium started in 1773 with Warren Hasting's constitution of the company's monopoly of opium production in Bengal.[276]

Even though opium was declared illegal in China in 1729,[277] European and Asian traders imported it throughout the entire century. The first EIC import of opium seems to have taken place in 1733, but was soon abandoned due to imperial restrictions.[278] As a consequence, British-Chinese trade in opium remained marginal until about 1780 as mentioned above. At around 1770, 1.000 chests were imported by British country sailers, and in 1782, 1.600 chests of opium carried on board the *Nonsuch* were sold for 237.000 taels (£79.000), at a loss of nearly 20%.[279] Then, in the last two decades of the 18th century, opium grew to become the most important commodity to be imported into China and the main means of exchange for the East India Company, replacing silver and reversing the global flow of money.[280] By the last decade of the century, an annual average of 4.000 chests of opium were imported into China, peaking in 1796/97 with 6.500 chests[281] and enabling the country agents to send money worth nearly £2 million from China to India between 1792 and 1809.[282] Thus they had an increasingly important role in the Canton trade for the Company, serving "[…] *a dual function for the EIC* […]. *First of all, they bought the drug from the company* […] *at auctions in Calcutta. The company was thus able to dissociate itself from the drug and disclaim all responsibility* […]. *Second, traders made these funds available* […] *in Canton.*"[283] After the cultivation and trade of opium had come under direct governmental control in 1797, opium became a "British" crop and the Indian-Chinese trade in it was primarily commanded by the British-Indian government's control of output and prices, ensuring to keep the opium trade profitable for British participants.[284]

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[276] *Trocki*, Opium, Empire and the Global Political Economy, 62.
[277] *Guotu,* Tea, Silver, Opium and War, 196; *Tsai,* Trading for Tea, 193f.
[278] Amar *Farooqui*, Smuggling as Subversion. Colonialism, Indian Merchants, and the Politics of Opium, 1790-1843 (Oxford 2005), 15.
[279] Janin *Hunt* , The India-China Opium Trade in the Nineteenth Century (Jefferson, North Carolina 1999) 39; *Morse*, Chronicles Vol. II, 77.
[280] See. e.g. *Trocki*, Opium, Empire and the Global Political Economy, 48-52. However, until 1823, cotton remained the number one item imported into China (measured by value) and only after that opium became the single most important commodity of the country trade. See. e.g. Mazumdar, Sugar and Society in China. Peasants, Technology, and the World Market (Harvard-Yenching Institute monograph series No 45 1998), 105.
[281] Rolf *Bauer*, Die Opiumindustrie Bengalens, 1773-1838. Ein Beispiel Wallerstein'scher Inkorporierung? (Univ. Diplomarbeit Wien 2010), 74, Tabelle 1.
[282] *Bowen*, Bullion for War, Trade and Debt Relief, 471.
[283] *Trocki*, Opium, Empire and the Global Political Economy, 51.
[284] Ibid, 62-65.

However vast the literature about the role of opium for the trade of the British Empire is, too little focus has been placed on its meaning for the Chinese economy and especially for the Chinese part of the Canton trade. Why were the British so successful in selling opium in Canton? What meaning did it have for the Hong merchants' businesses? How did the country merchants and the opium trade change the Canton System? Why was opium the single "British" commodity that successfully found a market in Canton?

Opium's meaning for the Hongs businesses is relatively easy to assess without even having the exact trade data. Like gold, the trade of which was also illegal, opium had the benefit of being a quick-turnover commodity able to generate a net profit within a very short time and thus generating profits beside the tea trade. "*It is like gold, I can sell it at any time*", as a country merchant wrote down in 1818.[285] However it was a risky business as the market for opium easily became oversupplied eliminating profit margins.[286] Additionally, there was always the threat of being discovered by officials and being faced with a harsh penalty. Thus, the character of the opium trade helps us to understand why it originated and became so successful at the time it did. Business was less complex before 1770, with tea being paid by silver, the Hongs had a quite reliable basis for profit and even though there was contraband trade, especially in gold, this illicit trade was another relatively reliable source of profit rather than a vital way of staying liquid. Thus, contraband trade in gold was one option among others to generate quick profits, or a way to please foreigners and gain advantages in negotiations over other Hongs. With nearly twenty years of crisis before 1785, this changed considerably. Trading in opium had become an essential way to compensate declining profit margins in the tea trade. The exploding numbers of opium chests imported into Canton around 1780-1800, and the development of opium prices in Calcutta rising about a third 1788-1793 and then again doubling by 1802, indicate a considerable growth of demand for opium in Canton.[287] Furthermore, the Hong merchants' growing demand might indicate how crucial opium had become for their financial situation. Additionally, with ever more opium coming to Canton, official intervention became more and more likely. As has been pointed out before, officials would always tolerate some contraband trade to keep the system running, but they were not (expected) to tolerate an illegal good becoming the main imported good! So, even though trading in opium became more and more regular and normal, it became more risky at the same time after 1780. Thus, to some degree the further growth really does indicate the Hong merchant's dependency on opium as a source of credit, suggesting again that trading in

[285] Yangwen *Zheng*, The Social life of Opium in China (Cambridge 2005), 70 and Footnote 29.
[286] *van Dyke*, Merchants of Canton and Macao, 18f.
[287] See e.g. John F. *Richards*, The Opium Industry in British India. In: Indian Economic Social History Review No. 39 *(*2002), 158 and *Trocki*, Opium, Empire and the Global Political Economy, 65.

tea had become quite dissatisfactory for Chinese merchants compared to the period 1730-1760. By about 1790, opium had become a keystone in the Canton puzzle and a crucial item for both the Company and the Hongs. As Cheong points out: "*At the root of the merchants' problems was the growth of the country trade, which posed new and insuperable problems of small-scale trade and an emphasis on imports* […]. *New commodities – cotton and opium – brought down the* […] *merchants* […]. *The expansion of the EIC was beyond the financial resources and skills of the small number of merchants.*"[288]

So, what was the real role of opium?

The crisis of the third quarter of the century had a deep and crucial impact on the British-China trade and the Canton System. The just described mechanisms to minimize the damages, war and mismanagement had caused, had developed life of it's own and evolved to become more and more self-sustained and independent from Company politics. To finally end the EIC's sales crisis and eliminate concurrence by other European companies, the state and the Directors worked out a solution that should – and would! – bring trade with Asia into British hands alone. This would be reached by a drastic expansion of tea purchases to push competitors out of the market. However, as we have – and the Directors had – learned from the crisis in the 1730s, British taxation of tea, encouraged smuggling and greatly hindered an expansion of purchases. To ensure that the other companies would not again circumvent the aggressive "flooding of the market" by smuggling, it was crucial to reduce taxes on tea significantly. The keystone of this politics was the Commutation Act of 1784, reducing taxes on tea from more than hundred per cent to 12.5% *ad valorum*.[289] After the passing of the act, EIC tea exports from Canton soared, doubling from some four million pounds in 1783/84 to more than nine million in the next season. In 1786/87 the exports again more than doubled to over 20 million pounds whereby the British Company finally outplayed its European competitors and became the largest importer of tea. It supplied two thirds of all tea sent to Europe before the 1790s, and by then the share even grew to about 80 per cent.[290]

For this purpose, silver transfers directly from Britain to China were resumed in 1785 and before 1805 varying amounts of silver were shipped from London to Canton.[291] However, silver did not resume its former role as a major payment. While the EIC exported commodities worth between half a million and a million Pounds Sterling during 1785-1792, and worth between £1 million and £2 million in 1792-1802 to China, [292] annual average silver

[288] *Cheong*, Hong Merchants of Canton, 115f.
[289] See *Mui* and *Mui*, Smuggling and the British Tea Trade before 1784, passim.
[290] See Figure 3.
[291] *Tsai,* Trading for Tea, Table 3.2, 120.
[292] *Bowen*, Business of Empire, Figure 8.2, 233.

exports in the twenty years after 1785 were about £290.000 with total annual amounts rarely exceeding half a million Pound Sterling.[293]

At the same time, from ca. 1792, the flow of silver was reversed. From that year on, increasing amounts of (private) silver moved *from* Canton *to* India, totalling about £2 million between 1792 and 1809.[294]

Interpreting this data, Bowen, following Ward, argues that the "*export of British commodities to Canton, in particular, was not as limited as some historians have suggested, and it played an important role in supporting the Company's purchase of a greater volume of Chinese goods for shipment to London. Even so, it was later shown that the amount of woollens and metals sent to Canton was considerably in excess of that actually requested by the supercargoes, and between 1794 and 1809 there were regular complaints that the Chinese market was being heavily overstocked from London.*"[295]

Ward himself answers Bayly's statement that "*exports from Britain were insignificant and were generally sold at a loss in the China market* [...]. *In such a difficult situation, two Indian products came to the rescue of the Company: raw cotton and opium"*[296] with: "*The Indianist case is overstated.*"[297]

Unfortunately, both points of view do not describe the situation perfectly correctly.

First, Bowen and Ward are incorrect because the EIC's commodity exports did not "*support the purchase of a greater volume of Chinese goods*" directly. As I have argued above, their meaning to the Company's business was rather indirect, because the fact is that selling exported goods at a loss was only a mechanism to prevent paying interest on transactions based completely on credits. Further, the commodities sent to China were not sufficient to supply trade alone. The stocking of goods was indeed a sign of oversupply, but it points out something completely different: with only tiny demand for those goods and more and more goods arriving, the Hong's retail price of trucking goods must have further decreased considerably, and thus reduced profits – or increased losses – again! So silver, won through opium sales, was heavily needed by the Hongs to maintain their businesses. Secondly, Bayly's mistake lies in not recognizing the role of commodities for the Company. Due to the reasons just mentioned, they were not *insignificant*. On the contrary, they gave rise to the country trade selling Indian cotton and opium and thus providing the Hong merchants with desperately demanded silver.

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[293] *Tsai,* Trading for Tea, Table 3.2, 120.
[294] *Bowen*, Bullion for War, Trade and Debt Relief, 471.
[295] *Bowen*, Business of Empire, 232-233.
[296] C.A.*Bayly*, Indian Society and the Making of the British Empire (Cambridge 1988) 104, cited in J.R. *Ward*, The Industrial Revolution and British Imperialism, 1750-1850. In: Economic History Review Vol. 47 (1994), 56.
[297] *Ward*, The Industrial Revolution and British Imperialism, 56.

The truth is, after 1785, the Canton System as it had existed before was dead. Three almost separated economic circles had developed in its place. The first circle was a Truck-for-Tea-Circle between London and Canton commanded by the EIC. The second was the Opium-for-Silver-Circle dominated by civil firms, and the third was a cash-against-Bills of exchange-Circle between Company and country merchants, connecting for example London, Canton, Calcutta and Bombay with each other. The third being geographically much less determinable and much larger than the other two circles as capital was flowing around the world much easier and freer than tea and opium. This banking function offered a very good way for the Company to get, without exporting dear silver to China herself, in possession of *cash* silver in Canton, which was absolutely constitutive for the Hongs' businesses. Additionally, it provided an easy way for the country traders to transfer wealth from China to other parts of the world and/or earn money by that through interest rates! Thus, the interaction of truck trade and the country opium (and cotton) trade was fundamental for the tea trade after 1785. Neither the British commodities nor the trade in Indian goods must be underestimated or its importance doubted. Without truck, the Company likely would have suffered heavily by paying more interest on higher Canton bills. Without the Company transforming cash profits into bills of exchange, the country trade would have been much more difficult. Without country silver the EIC would not have been able to supply sufficient silver to purchase the huge amounts of tea demanded. With no silver arriving at all in Canton, the Hong merchants would have lost their livelihood. Without tea trade and the need for silver in Canton, the country trade would possibly never have gained as much importance to world trade as it eventually did. Thus, every party was in one way or the other dependent on one or even both of the two.

The rise of the opium trade in 1760-1800 was thus based on three major developments: First, as described above, the crisis of the EIC itself and its turn to truck trade led to (a) a growing need for private investment in the Canton trade, and (b) to diminishing profits for the Hongs which eventually eliminated the Triple Alliance. (c), this major chain of bankruptcies greatly shocked the Canton credit market and discouraged private individuals and firms to invest money in the trade.[298] Still, private silver was needed. Second, consequently, opium became the best way of sending silver to China *and* generating a safe profit for the country traders, transforming them from creditors to merchants and enabling them to fulfil both the Company's and the country traders' needs. Third, the expansion of EIC tea exports from Canton after the Commutation Act 1785 heavily overcharged the Hong's total financial

[298] See for that purpose e.g. *Cheong*, Hong Merchants of Canton, 116.

margins once again, deepening their dependency on foreign loans to plan, purchase and guarantee tea supplies, or as Ward summarizes: "*Trade expansion made the Hong merchants of Canton increasingly dependent on British credit, used partly to secure their inland tea supplies, and indebtedness led them to connive at opium smuggling.*"[299]
Further, since the EIC outran its European competitors after the passing of the act, it gained a much stronger position in price bargains and contract conditions. Fourth, within this logic, opium was a risky, but profitable option for Hong merchants to meet the heavy impacts the truck trade and debt service as well as declining prices for tea had on their profits.
Still, the Hong's need for opium and the function it held in the trade system does not explain the drug's success itself. Without people eager to buy opium it would not have been an interesting commodity for the licensed merchants. There must have been considerable and growing demand on the Canton and interior Chinese market to make this risky business worthwhile! So, to answer the question why opium was really that successful and central to world trade, cultural as well as economic factors need to be considered. To just assess the important financial role opium played in the tri-circle trade does not satisfactorily explain why an officially forbidden and prosecuted drug was increasingly able to enter the Chinese market. As scholars have intensely studied British consumption of tea and its development, a comparable glance needs to be casted upon Chinese opium consumption!

*The Hunanese pipe in the mouth,*
*the lamp throws sunshine around,*
*That unique odor,*
*that exquisite rarity from the sea trade,*
*rises like steam and cloud.*

. . .

*the curved shoes below are like softened jade*
*the lazy hands at the bed are as thin as a thread*
*intimate friends meet again when smoke rises*
*How happy!*[300]

[299] Ward, The Industrial Revolution and British Imperialism, 57.
[300] Zhao Guisheng, '*Xiti yapian yan'*, cited in: Yangwen *Zheng*; The Social Life of Opium in China, 1483-1999. In: Modern Asian Studies Vol. 37 No. 1 (2003), 20. Zhao's poem translates 'Playful verses to the opium smoke.'

Noticeably, the first reason why opium selling was a story of success was because opium was not new in China. Yet in the 16th century, European and Asian traders, migrant workers, and immigrants carried it into the Heavenly Kingdom.[301] However, like tea in Europe, it was considered a medicine until the beginning of the 18th century, when it was more and more commonly known and used as an aphrodisiac after literati and others had spread that knowledge. It quickly transformed into a luxury item for healthiness and sexual recreation.[302] In the course of the century, opium would develop to become an important consumption good, closely connected to the sex industry in southern China. "*By 1793 opium smoking accompanied by sex recreation on leisure boats had become a well-established industry in Canton*"[303] where the *flower boats*, swimming brothels, would lie on the river and offer their services. By the last two decades of the century, opium consumption had become very fashionable among members of the educated urban elites, officials and literati. To the extent that Ambassador Macartney notices that "[…] *the cotton of Bombay and the opium of Bengal are now become in great measure necessaries in China, the latter having grown into general demand through all the southern provinces* […]."[304] Zheng Yangwen summarises: "*From the 'art of alchemists, sex and court ladies' to the boat brothels of Canton, opium had filtered down from the mid-Ming court to the mid-Qing upper and upper-middle classes. From 1483 to 1793, three hundred years had seen the confirmation of opium the aphrodisiac. The Eighteenth century saw its initial outward and downward diffusion. It also saw the rise of the English East India Company and opium smuggling. By the late eighteenth century opium had started to live a life of its own. This is the dynamism of commerce and consumption*."[305] Thus, by the turn of the century, opium had become a very important item of what Zheng calls "*yanghuo re*, a craving for foreign stuff."[306] Furthermore, "*the urban elite was the 'message-sending' and 'production-moulding' forces of the opium smoking consumer trend. They set the standard when it came to relaxation and recreation; they spread the consciousness of consumption. This highlights urbanization and urban culture, the role they played in leisure pattern and social change, the impact they had on popular culture, and most relevantly how they helped to generate the demand for opium*."[307]

So, from the mid-18th century, opium smoking had become an integral part of fashion among urban elites for European goods and started to diffuse the social ladder downwards. Opium

[301] *Zheng,* Social Life of Opium in China (2005), 43ff.
[302] Ibid, 49f.
[303] Ibid, 50f.
[304] Ibid, 53.
[305] Ibid, 54f.
[306] Zheng, Social Life of Opium in China (2003), 17.
[307] Ibid, 21.

and other items – *yanghuo re* - had invented the counterpart of European's 17th century *chinoserie* and became the founding commodities of a new lifestyle.
In the years around 1800, opium was the 18th and 19th century *iPod* for the higher Chinese urban classes.
Without further analysing opium consumption in China, this short insight gives us an idea of why British opium smuggling was so successful. In some way it sustained or even enabled the development of a socio-cultural habit that was first adopted by the educated and wealthy inhabitants of southern China's port cities, and would eventually grow into the daily consumption of a great part of the Chinese population. The British were successful in selling increasing amounts of opium to China due to this "incorporation" of opium into the Chinese diet. Further, without opium's diffusion to people of lower social *stati*, the dramatic increase of the opium trade after 1820 would not have been possible.
Summarizing, the rise of the country opium trade was due to, first, the company's need to replace silver exports as mean of payment and, second, due to the Hong's need to trade in a profitable commodity that could provide enough silver to pay interest on rolled-over debts, to advance payments for tea to the interior or short: maintain the tea trade. The third factor was the growing Chinese demand for opium caused by fashion, *yanghuo re,* and the incorporation of *yang* into Chinese habits.
It is this whole picture that needs to be considered to understand the history and development of the Canton System and Sino-British trade during the heydays of opium at the turn of the century. However, my analysis of the Canton trade will stop at this point in history without including the most reported events of the Opium Wars during the mid-19th century, which mostly have been interpreted as path-breaking happenings in the history of Euro-Chinese interaction, turning the tides of global power in favour of the British. In the following lines, I will explain why I disagree with this point by arguing that the decisive events and developments of the *Great Divergence* had taken place *before* the year 1800, leaving the Opium Wars as a historically consistent culmination and a long-term *consequence* of political-economic developments of the 18th century, rather than as the *cause* for changes in global power. A closer view on the Canton System in 1800 reveals that it would, without significant alterations from the Chinese top political ranks, stagger towards disaster. Having much better information about the events than anybody in Canton, London or Beijing had around 1800, it is undoubtedly undeniable that the system was eventually doomed to fail.
By 1800, the constitutive cornerstones of the Canton System had been brought out of balance. As I have argued, the system was based on a fragile equilibrium of *control, credit* and

*contraband* that was fundamental as it equally and concurrently served the needs of all three parties; East India Company, Hong Merchants and Chinese state and its representatives. However, after I have shown the effects of global changes and alterations of trade between London, Canton and, later, Calcutta, it is now possible to observe the deconstruction of the Canton System step by step.

The first to fall was the credit pillar: By turning to truck, reducing silver payments, and more or less simultaneously expanding tea purchases to overcome European competition, the EIC had put the Chinese merchants in a situation heavily overextending their financial means. Before that, credits, foreign loans and advancements were means to give some planning certainty to the Hong merchants and to secure orders. They were sort of first instalments. After various steps expanding the system, in 1747, 1760 and eventually 1784, trade had grown so large, though the decreasing number of Hongs had not, that credit had become constitutive to the system. Chinese Canton merchants were simply not financially able to provide means sufficient for the tea trade, so they had to finance trade by foreign loans, for which quite huge interest rates were demanded, reducing profits significantly and constantly. Before the second half of the century, they had been real merchants, buying and selling tea from and to other traders. After 1760, they increasingly became administrators of trade, connecting British money with inland tea producers. They had become brokers, not merchants. Still, they were paid astonishingly bad by truck, which was rarely profitable, and additionally they had to pay huge interest rates on the tea money they administered. However, the true reason why the Hong merchants had such difficulties in maintaining business profitable remains cloudy. The explanation of this phenomenon seems to be one of combined factors. The Hong's reliance on credits to advance money to producers was caused by the growth of business or the limitation of the number of Hongs. The interest rates for those advances likely seriously diminished profit margins. The impacts and costs of official's corruption to smooth business are very hard to assess. Expenses demanded by state officers likely posed a serious threat on the Hong's finances. Additionally, the Hongs usually were expected a certain social behaviour that seems to have been cost-intensive, too. The combination of these various points likely left the Hong merchants very little or even no space to survive periods of less inputs of foreign money to roll-over credits etc.

Thus, credit, itself being illegal, had become most influential within the Canton System, commanding prices and leaving the Chinese partners in a most unfortunate situation.

As a direct consequence, this development brought down the second pillar, contraband. Contraband had always been a profitable but subordinated line of business, and officials to

some extent had tolerated it because it enabled trade and tax income to grow in the initial decades of the system. However, with the new situation in the world market and global exchange, the rise of the truck and country trade and the Hong merchants becoming the EIC's "*financial wards*"[308], contraband grew, too. From the 1780s on, illegal opium trade increased more and more since it served the needs of the Company, country traders and Hongs altogether, as pointed out. Still, it was illicit and by 1800 it had become the primary British import into China. Without opium, the Hong merchants would not have been able to maintain trade after 1785 or 1790. Contraband had become the secret king of Sino-British commerce and it ruled the Canton System.

This, third, again directly poses the question of control, the remaining pillar. With Chinese actors increasingly loosing economical control over trade, officials lost political control over it, too. With the Hong's dependency on foreign credits and opium, both (!) illegal, and the ever increasing smuggling of opium into China, smoothed by bribed officials, it is obvious that Beijing had lost control over (British) foreigners by 1800 as the principles of trade were based on infringements! A system based on equal exchange with silver as payment had by then changed into a system commanded by corruption, contraband and credit-dependency even *before* the great explosion of opium smuggling and silver drain out of China after 1813 or 1833 respectively. British-Chinese trade had been on a track directly leading to disaster - the Opium Wars - since the second half of the 18th century. Thus, even though Britain won these wars by force of new, industrial techniques, the routes of the Opium Wars were truly pre-industrial, mercantile and to some extent pre-imperial.

Thus, if it was the Canton Trade that was a main cause of these wars, there must have been a deeper meaning of this trade for both parties, English and Chinese. How could this intercultural exchange lead to political and economic disaster? Trade had become so crucial for the European companies, states and consumers that they were ready to ensure its maintenance by force. They were ready to fight what has been said to be the most powerful empire in the world only some decades before. However, was this just a one-sided medal? What where the trade's effects on China's economy and society? What role did it play outside and beyond the city of Canton?

This question will be treated in the following chapter.

[308] *Gardella*, Harvesting Mountains, 35.

# II. Beyond Canton: British Trade and the Chinese economy

The meaning that Chinese goods and tea had on the European market and society has been studied most intensely and in extensive detail. Literature about the impact of the Canton trade on the Chinese economy does exist in a much scarcer, but growing number. It is the purpose of this chapter to ask what significance the British demand for tea and the ever-growing trade in it had on the markets beyond the city of Canton. How were the enormous amounts of tea supplied, and by whom? What happened with the silver brought to Canton in European ships, what were its impacts? Did the Canton trade have any impacts on the (south)-Chinese economy at all? And if so, how did these impacts change with the system changing? Was China really as economically independent and unaffected by the West as its Emperor had claimed in his famous letter to King George III in 1793, and as historians like Kenneth Pomeranz and Andre Gunder Frank argue? To what extent was the foreign trade at Canton involved or connected with the Chinese hinterland? Was there a connection at all, or was the tea trade an independent trade line without any link to inter-Chinese economics?
As various scholars have shown, the meaning of foreign trade on the overall Chinese economy prior to 1840 was rather small. Peer Vries argues that the entire turnover of tea did not exceed 0.7% and the volume of tea exports was about 0.3% of the Chinese GDP around 1830.[309] So, even though Sino-British trade had grown drastically up to this date, it seems to have meant almost nothing to the Chinese economy on a national level. But, considering the big difference in size of the two countries, this is hardly surprising. To really get an idea what effects foreign trade had, we have to "zoom in" to China. For this purpose, this chapter takes a look at the macro-region of Lingnan, which consists of the two provinces of Guangdong, with Canton (Guangzhou) as the capital, and Guangxi. Additionally, Fujian province, where nearly all of the tea sold to Europeans was grown, is taken into consideration. With a population of about 13 million in 1753 and nearly 20 million in 1813,[310] Lingnan resembles much more an area of a "European" format, roughly corresponding with French or German population numbers of the time.[311]

[309] Vries, Ökonomie des Tees, 52f.
[310] Robert B. *Marks*, Tigers, Rice, Silk, and Silt. Environment and Economy in late Imperial South China (Studies in Environment and History Cambridge 1998), 280.
[311] For population of France see e.g.: Henri *Sée*, Economic and Social Conditions in France During the Eighteenth Century (Kitchener 2004), 13. For German population numbers see e.g.: Ulrich *Pfister* and Georg *Fertig*: The Population History of Germany: Research Strategy and Preliminary Results (Max Planck Institute for Demographic Research Working Paper 2010-035), 5.

Of course, no historian would negate the meaning and effects that trade between England, France and Germany had on the three of them. So, with Lingnan of comparable size, wouldn't it be most remarkable if British trade had had no effects on the region?

Figure 6: Situation of Lingnan Region in Imperial China[312]


[312] Map taken from: Robert B. *Marks*, Commercialization without Capitalism. Processes of Environmental Change in South China, 1550-1850. In: Environmental History, Vol. 1 No. 1 (January 1996), 66.

Figure 7: Lingnan Region, ca. 1820[313]


Certainly, those arguing in favour of Chinese economic superiority and independency would claim that European traders did not have any *direct* access to markets beyond Canton, and were thus simply not able to cause any changes in production patterns, market conditions or other economic aspects. However this might be a valid point, even though the straight separation of inland Chinese and European merchants seems to be less true than it has been promoted, at least there were important *indirect* contributions of foreign trade to the regional economy. To support this picture, the following part will pay close attention to economic developments taking place in Lingnan during the 18th century. Central to this survey will be the following phenomena: first, the commercialization of agriculture, and second, the monetization of the economy and the developments of markets.

[313] Map taken from *Marks*, Commercialization without Capitalism, 71.

# 1. The Commercialisation of Agriculture in 18th Century Lingnan and Fujian

To be clear, even though European trade grew throughout the 18th century, it remained only one of various commercial lines in which the Southern Chinese were engaged. This is not the place to broadly discuss the trading world of the South China Sea and the Indian Ocean, but before studying the impacts of British trade on Southern China, it needs to be remembered that there was a vivid, sophisticated and long existing intra-Asian trade between China, India, the Philippines and Indonesia, in basic as well as in luxury commodities.[314] Further, this Asian-Chinese trade was of a larger volume than Sino-European trade until the 1770s.[315] The total trade of Chinese coastal and overseas trade was in the region of about five million taels per year during the 18th century, with Guangdong customs collecting a third of all taxes collected before the 1770s, when this share increased to maybe two thirds due to growing European, or more precisely, British trade.[316] Additionally, with the Pearl River being the third-most-important transport way, Lingnan had very easy access to Chinese inland areas and economic systems, which enabled intensive exchange within the borders of the empire.[317] It will be pointed out later that this connection played an important role for the coastal trade.
To answer the question of the impact of European trade on Lingnan's economy, let us first have a look at the general domestic and foreign trade of the Chinese empire to assess what role trade had on the national level. Then we will try to find out how much of the domestic produce was directed towards the European export market in order to make a statement of whether European demand could have been an incentive for Chinese producers to orient towards foreign export at all. Third, the developments of the major lines of agricultural production, being the production of sugarcane, silk, tea and rice, will be observed to answer the question of how Lingnan's economy had come to the point it was at the end of the 18th century. Fourth, we will discuss the role of foreign silver payments on this regional economy for the purpose of drawing a general picture of Lingnan's economic environment.
Unfortunately, data about Chinese economic activities does not exist for the 18th century. However, Kent Deng's estimate for Chinese GDP in the 1830s, 3,598.3–3,958.2 million tael

[314] Among various authors see. e.g. *Frank*, ReOrient, esp. Chapter 2; *Findlay* and *O'Rourke*, Power and Plenty, Chapter 5, esp. 262-285 and *van Dyke*, Merchants of Canton and Macao, esp. Chapter 4.
[315] *Marks*, Tigers, Rice, Silk, and Silt, 170.
[316] Ibid, 170f, 178.
[317] Ibid, 171.

of silver, is still an accepted reference value.[318] Additionally, Wu and Xu present trade figures for the same period of time in the following table.

Figure 8: Estimates of the main commodity market before 1840[319]

| | Quantity in 1.000 lbs | Value in 1.000 tael | % | % of total Production |
|---|---|---|---|---|
| Food grain | 41.055.000 | 163.333 | 42.14 | 10,5 |
| Cotton (litres) | 25.550 | 12.775 | 3,3 | 26,3 |
| Cotton cloth (bolts) | 315.177 | 94.553 | 24,39 | 52,8 |
| Silk | 9.443 | 12.023 | 3,1 | 92,2 |
| Silk fabric | 6.517 | 14.550 | 3,75 | |
| Tea | 346.465 | 31.861 | 8,22 | *100?*[320] |
| Salt | 5.184.200 | 58.529 | 15,1 | |
| Total | | 387.624 | 100 | |

As the figures presented show, total Chinese market activity was in the region of about 10% of the empire's GDP in the first half of the 19th century.[321] Next, the main goods traded can be divided in three major categories being goods of basic, everyday consumption such as food grains and cotton cloth; "everyday luxuries" as Pomeranz calls it,[322] like salt and tea; and silk as a "luxury fabric".[323] Clearly, trade in basic goods was by far the largest with food grain and cotton products having a total market share of about 70%, whereas everyday luxuries occupied almost a quarter, 23%, of all market operations, leaving a share of some seven per cent to luxury trade in silks. Third, Table 1 points to the fact that nearly all of the silk and maybe all tea produced were distributed on markets, while about half of the cotton cloth production and only a tenth of food grains grown entered the Chinese domestic market. However, these figures might be more valid concerning food, but they clearly disagree with Pomeranz's calculation of Chinese silk output. According to him, China produced a minimum of 71.000.000 pounds of silk around 1750.[324] Taking the figure for *silk* from Table 1 gives us some 9.5 million pounds, meaning that circa 13% of the entire Chinese silk output reached the

[318] See Kent *Deng*, The Nanking Treaty System, Institutional Changes, and Improved Economic Performance in Qing China (Paper presented at the Asian-Pacific Economic and Business History Conference, Sydney 2007), 3.
[319] Source: Fang *Xing*, Shi *Qi*, Jian *Rui* and Wang *Shixin*, The Growth of Commodity Circulation and the Rise of Merchant Organisations. In: *Chengming*, Wu; *Dixin*, Xu (ed.), Chinese Capitalism 1522-1840 (Studies on the Chinese Economy Basingstoke 2000), Table 9.1, 174. Units converted into pounds.
[320] Elsewhere, Fang Xing et alt. claim that "[…] *before 1840 the annual production of dry tea reached over 2.5 million dan.*" (ibid 184.) This 2.5 million *dan* is the same amount as the 346 million pounds of tea quoted in the table above. Thus, it seems the authors indicate that all tea produced did reach the market.
[321] See also *Deng*, Nanking System, 4.
[322] Compare *Pomeranz*, Great Divergence, 116-127.
[323] Ibid, 139.
[324] *Pomeranz*, Great Divergence, Appendix 327-330.

market. Of these 13% approximately one sixth, that is 2% of the entire silk production, and about 13% of the domestic tea production was sold via Canton.[325]

As the authors point out in a second table, cotton imports were worth about 27% of domestic circulating cotton, while exports of silk and tea equalled to a 22% minimum and a 41% of the value of domestic circulation respectively.[326] These numbers mean that 2% of domestic silk production generated sale incomes worth nearly a quarter of total domestic sales, while 13% of all tea produced accounted for an influx of money worth as much as 40% of total domestic production! Though very impressive, this does not seem implausible since, for example, tea sale prices at Canton seem to have been more than twice as high as domestic prices.[327] In general, foreign trade (import of cloth and opium, export of silk and tea) made approximately 8% of the total value of total commodity circulation. Kent Deng's estimate for this ratio is ca. ten per cent.[328] Thus, total foreign trade was in the neighbourhood of only about one per cent of the Chinese GDP prior to 1840.[329]

So, if foreign trade was really only a tiny one per cent of total Chinese economic activities, the question arises if European trade could have been an incentive for the Chinese peasant to adapt production according to the demand at Canton at all? Robert Marks' answer would certainly be positive as can be understood from his following statement:

"*But after 1550, the agricultural economy of Lingnan became highly commercialized. Markets and marketing activity expanded at a rate faster than that of the population. The most immediate stimulus for the commercialization of the economy was the new demand for Chinese goods - in particular silk and porcelains - from European traders who arrived in the South China Sea in the sixteenth century.*"[330]

But was that really true? If European exports of tea really only held slightly more than a tenth of total production while silk exports were at 2% of total output, would that have been a strong incentive to do the risky turn from subsistence production to cash crop production relying on the market?

However, again, national figures cannot help us much in discussing foreign trade's impact on regional economics and societies. Let us break down those empire-wide trading figures to a provincial level to get an idea of the importance of foreign stimulation of regional Chinese

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[325] For tea see *Naquin* and *Rawski*, Chinese Society, 105; Fang *Xing* et alt., The Growth of Commodity Circulation and the Rise of Merchant Organisations, 185.
For silk: Fang Xing et. alt. mention exports of 11.000 dan (1.463.000 lbs) of silk being included in the total figure (see ibid, 174).Thus, 15% of total silk circulation was exported. For the share of exports of total production I followed Pomeranz's calculation, thus calculating with total production of 71 million pounds and exports of ca. 1,46 million pounds.

[326] Ibid, 175, Table 9.2. This certainly derives from the high export prices Europeans paid in Canton.

[327] See. e.g. *van Dyke*, Merchants of Canton and Macao, Table 2.12, 101; *Guotu,* Tea, Silver, Opium and War, 80, esp. Footnote 68.

[328] Fang *Xing* et alt., The Growth of Commodity Circulation and the Rise of Merchant Organisations, Table 9.2, 175, 176.
*Deng*, Nanking System, 6.

[329] See also *Deng*, Nanking System, 6.

[330] *Marks*, Commercialisation without Capitalism, 60.

economies. Though sugar cane is not mentioned among the most important commodities of the Chinese market, other literature emphasises the importance of trade in it. So, let us take sugarcane as starting point of a chain of trade.

The production of sugarcane is, as authors like Robert B. Marks and Sucheta Mazumdar have shown convincingly, closely connected to the production and trade of cotton. "*Cotton was not grown extensively in the* [Pearl River] *Delta*"[331] leaving Lingnan to be a chronic cotton importer yet from the 17th century onwards.[332]. To solve this problem before 1780; cotton was brought into Lingnan from Hubei and the macro-region of Jiangnan in central and northern China, consisting of parts of the provinces of Anhui, Jiangsu and Zhejiang (see Map 1).[333] To purchase cotton, sugar played a central role. Most strikingly, Lingnan tenants did not decide to grow cotton themselves even though it had been grown in Guangxi in Ming times.[334]

Instead, with rising imports of cotton throughout the 18th century, Guangdong peasants increasingly turned to sugarcane, which found a good market in both India, where a shift from sugarcane to cotton cultivation took place, and central and northern China, were sugar was well demanded, too.[335]

"*The export trade in cotton textiles woven in Guangzhou did not stimulate the expansion of cotton cultivation in the Pearl River delta; instead it stimulated expansion of sugar-cane.* [...] *To meet the demand for raw cotton, the expansion in production of sugarcane did not require additional land to be cleared. Rather, farmers simply switched producing fields from rice to sugarcane. Doing so required little by way of large capital outlays, unlike massive land clearance, swamp drainage, polder construction, or irrigation projects, thereby putting sugarcane production within the reach of most peasant households. Most of this switching was on land peasant farmers tilled; it is possible that merchants or rich peasants may have operated large "plantations" with wage labor.*"[336] Lingnan sugar was then exchanged against central and northern Chinese cotton, forming "*a triangular trade route: sugar produced in Guangdong was sold (or traded) in Jiangnan (in the Yangzi River delta) for raw cotton; the raw cotton then was sold in Guangzhou* [i.e. Canton]*, the proceeds of which became either profit or capital to finance another round of trade.*"[337]

The production of sugarcane was, first, dominated by peasant-smallholders, and second, as Marks argues, based upon a shift from rice to sugar cultivation rather than upon an expansion of cultivated land.

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[331] *Mazumdar*, quoted in: *Marks*, Tigers, Rice, Silk, and Silt, 172.
[332] *Mazumdar*, Sugar and Society in China, 105.
[333] Ibid, 105; *Marks*, Tigers, Rice, Silk, and Silt, 172.
[334] *Marks*, Tigers, Rice, Silk, and Silt, 172.
[335] *Mazumdar*, Sugar and Society in China, 104f; *Marks*, Tigers, Rice, Silk, and Silt, 172f.
[336] *Marks*, Tigers, Rice, Silk, and Silt, 63.
[337] Ibid, 173.

"*In the crop rotation system of many Lingnan peasant-farmers, sugarcane therefore replaced rice, and as the amount of land allotted to sugarcane increased, the amount devoted to rice shrank, more or less on a one-for-one basis. By the middle of the eighteenth century, a substantial portion of the land in several counties had become devoted to sugarcane* […]."[338]
After the cane was harvested, it was processed by "*itinerant artisans traveling with cane crushers*, [enabling] *many more smallholders, who even collectively could not afford to buy a cane crusher, to carry out sugar manufacturing."*[339]
Following Marks, Kenneth Pomeranz states that in Guangdong non-grain farmland for maybe half of total cultivated soil, about 16,800.000 *mu*, with sugar being at least among the top three of the most grown crops, if not first (the other top crops were mulberry, tea and fruits). Thus, altogether, Guangdong sugar production might have amounted to *a minimum* of 672,000.000 pounds around 1750,[340] of which maybe about half, 300,000.000 pounds, went to Jiangnan.[341]
Then, when British exports from Canton soared from the mid-1780s, Mazumdar reckons that this intra-Chinese trade circle was to some extent altered. He suggests that answering rising European demand, Jiangnan reduced its exports of raw cotton to Lingnan for the sake of finishing nankeens for export to Canton, and then sold to both British company and country traders.[342] Simon Tsai shows the increase of nankeens exported by the EIC between the 1760s and 1830s, starting from some 5.000 taels during the first period and rising almost sixteen-fold to almost 80.000 taels at the turn of the century, with the late 1780s and late 1790s respectively witnessing the most spectacular increases.[343] So, there was indeed an increase in European textile exports.
As a direct consequence and quite synchronised, Lingnan switched to Indian cotton imports to supply its cloth-industry. The late 1780s saw a great increase of British country trade cotton imports into Canton, more than doubling in value between 1786/87 and the very next season.[344] According to Robert Marks, raw cotton imports grew more than threefold in value between 1780 and 1785, and increased again by the same factor during 1795-1815. Gang Deng indicates a six-fold growth of British cotton imports from India 1775-1799.[345] However, as Marks further argues, this increase in imports was entirely financed by soaring exports of

[338] *Marks*, Tigers, Rice, Silk, and Silt, 174.
[339] *Mazumdar*, Sugar and Society in China, 325.
[340] *Pomeranz*, Great Divergence, 121.
[341] Ibid, Appendix F, 331.
[342] *Mazumdar*, Sugar and Society in China, 105; *Tsai,* Trading for Tea, 170.
[343] See *Tsai,* Trading for Tea, Table 2.7, 82.
[344] See *Tsai,* Trading for Tea, Table 4.4, 171.
[345] *Marks*, Tigers, Rice, Silk, and Silt, 178; Gang *Deng*, Chinese Maritime Activities and Socioeconomic Development c. 2100 B.C – 1900 A.D. (Contributions in Economics and Economic History 188 Westport, Connecticut 1997), Table 5.4, 123.

tea and silk, floating maybe two million taels per annum into Canton.[346] Further, Mazumdar argues for an even greater shift in the Chinese sugar market. He claims that the direction of Guangdong sugar exports shifted together with the cotton supply. So, when cotton increasingly *came* from India, sugar in turn increasingly *went* to India as payment for cotton imports.[347] Between the lines, Mazumdar seems to point in the direction that the Guangdong sugar agriculture reoriented towards foreign exports at the end of the 18th century. However, it is not quite clear to what extent the intra-Chinese (or Lingan-Jiangnan) sugar-for-cotton-trade was loosened by rising European dominance in world trade. A significant alteration seems rather questionable. Using Pomeranz' data for Guangdong sugar output suggests the opposite. According to Mazumdar, British country traders exported ca. 26.000 piculs of sugar (ca. 3.6 million pounds) and ca. 10.000 piculs of sugar candy (ca. 1.3 mio pounds), totalling almost 5 million pounds in 1792.[348] Compared to Guangdong sugar production of the mid-century mentioned above, that would be only a tiny amount, 0.7%. However, if we accept that half of Guangdong's sugar yield was exchanged for Jiangan cotton that would double the share of sugar directed for export to 1.3%, still only a negligible amount. Further, Pomeranz argues that Lingnan, the Southeast coast and the lower Yangzi "*may have accounted for almost all of China's sugar consumption in 1750"*,[349] supporting the remainder of Mazumdar's intra-Chinese sugar-cotton-connection. Additionally, Pomeranz shows that Jiangnan did not cease to export, but maybe financed its sugar imports from Lingnan one-to-one with cotton, thus exporting 300,000.000 pounds of cotton thither.[350]

Thus firstly, it seems that foreign export did not greatly affect the general orientation of the Guangdong sugar industry before the 19th century,[351] the sugar-cotton-connection between Lingnan and Jiangan continued, and a good deal of Guangdong sugar really was consumed locally.[352] Secondly, following Pomeranz's estimates of Jiangan's cotton production of some 500 million pounds per year during the mid-18th century, European export numbers are more than dwarfed. Consequently, these figures pretty much suggest that the sugar trade of Guangdong was nearly entirely inland-oriented, with only a minimal fraction being sold to foreigners at Canton before the great invasion of civil British trading companies after the 1810s and 1820s.

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[346] *Marks*, Tigers, Rice, Silk, and Silt, 179.
[347] *Mazumdar*, Sugar and Society in China, 106.
[348] Ibid, 107.
[349] Pomeranz, Great Divergence, 123
[350] Ibid, Appendix F, 331. However, Pomeranz continues that these numbers are very unstable.
[351] Mazumdar lists greatly expanded British sugar exports after 1830s, the top- export figure being about 950.000 piculs (126 million pounds) for 1830. That in turn would be a significant share of the Chinese production.
[352] Ibid, 118-122.

I would interpret rising British imports of cotton as a sign of an overall growth of the Chinese textile sector, rather than as a market need for foreign imports of raw material. Mazumdar's assessment of the role of British trade to the Chinese sugar and cotton network seems to be exaggerated. Indeed, the influx of British Indian cotton might have been solely caused by the function this commodity had for the businesses of the Hong merchants (see previous chapter). However, again, the little impact of British trade on general Chinese trading patterns is hardly surprising. British demand could not greatly interfere with such a great economic network.
In general, it needs to be considered that neither Chinese sugar, nor *Chinese* cotton were of great importance for British traders since the British had gained (cheaper?) access to these commodities elsewhere in the world by that time. Thus, forces (e.g. population growth) within the Chinese domestic market drove the commercialisation and interlinking of cotton and sugar, which in turn integrated the British country trade, developing local "hotspots" like in Foshan. As Robert Marks turns it: "*European trade was layered on top of the base established by the Chinese coastal and Nanyang trade* [...]."[353] British country traders profited enormously by becoming integrated in the intra-Chinese trans-provincial cotton-sugar network, whereas this integration of the country trade through cotton and later opium only enabled the Canton trade to survive and maintain the flow of silver into China, as discussed previously.
More direct connections between the British demand at Canton and the Lingnan economy will become clearer in the discussion of two other products highly demanded by Europeans: silk and tea

Different from sugar, silk and tea were articles of great interest for the British traders who came to China. Let us continue with the discussion of silk production, and first let us have a look at production and export figures.
First, according to Marks, total silk exports from Canton had amassed to some 25.000 piculs (3,325 mio lbs) in 1723, to about 200.000 piculs (26.6 mio lbs) in 1750 and crossed the one-million-piculs-bar somewhere between 1792 and 1828, by growing quite linear with about 10.000 piculs per year throughout the century. [354] This is consistent with the assessment by Fang Xing et altera who estimate annual silk exports pre-1840 of ca. 1.46 mio pounds (11.000 piculs) and indicate that total exports were about 18% of total production and nearly all silk was exported via Canton.[355]

[353] *Marks*, Tigers, Rice, Silk, and Silt, 177.
[354] See *Marks*, Tigers, Rice, Silk, and Silt, Figure 5.6, 182.
[355] Fang *Xing* et alt., The Growth of Commodity Circulation and the Rise of Merchant Organisations, 174, Table 9.1. See footnotes concerning silk.

Ramon H. Myers and Yeh-Chien Wang estimate that English silk export at Canton grew from five tons in 1723 to 163 tons in 1792, making the city the main silk exporter of the empire.[356] Shih Min-hsiung supports this thesis.[357]

Alvin So further indicates European export figures at Canton of about 1000 piculs (133.000 lbs.) of raw silk in the 1750s, and about 3200 piculs (425.000 lbs.) in the 1790s.[358] These numbers happen to be quite sound compared with those reported by Morse.[359] Therefore, European silk purchases might have hovered around the mark of a tenth of China's silk export trade.

Using Chaudhuri's data of EIC silk export reveals an annual average of about 140.000 pounds 1752-1760.[360] According to Man-houg Lin, this figure had not changed much until the 1830s,[361] so that British silk exports likely equalled the total European and circa 10% of total Chinese silk exports.[362] That Canton's demand for silk had great impacts on interior Chinese production patterns is shown by a survey of the silk production in Suzhou, Jiangsu province, from 1759:

"*The unprecedentedly high prices for silk are actually caused by the export of silk via Fukien* [Fujian] *and Canton in recent years. When Fukien merchants come to Hu-chou* [problably Huzhou]*, they generally buy between 300,000 and 500,000 taels' worth of silk (in a season), while the Cantonese buyers often spend a million taels, or at least 800,000 or 900,000 taels* […] *and export their goods through Canton.* […] *The one to two million taels from the Fukien and Canton merchants* […] *buy up the supplies regardless of price.*"[363]

Most fortunately, there is information concerning silk purchasing prices in the producing area. For 1747, a price of 0.06-0.07 taels per ounce (= 127-148 taels/picul) is indicated while the purchase price for silk textiles would have been 0.13 taels.[364] Taking these figures and the low-end price as basis for calculation, we arrive at foreign-export-oriented raw silk purchases of about one million to 2.1 million pounds (7874- 15.748 piculs), which sounds like an accurate number.[365]

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[356] *Myers* and *Wang*, Economic Developments 1644-1800, 622

[357] Min-hsiung *Shih*, The Silk Industry in Ch'ing China. In: Mark Elvin (ed.): Michigan Abstracts of Chinese and Japanese Works on Chinese History No. 5 (Ann Arbor Center for Chinese Studies 1976), 65.

[358] See Alvin *So,* The South China Silk District. Local Historical Transformation and World-System Theory (Albany, New York 1986), Table 4-2, 70.

[359] See e.g. *Morse*, Chronicles Vol. II, 11, 29, 35, 40.

[360] Compare *Chaudhuri*, Trading World of Asia, 538.

[361] Man-houng *Lin*, China upside down. Currency, Society, and Ideologies, 1808 – 1856 (Harvard East Asian monographs 270 Cambridge 2006) Table 2.11, 99.

[362] That would indeed mean that no other European company purchased Chinese silk. Data provided by Morse indicates the same. See footnote 359.

[363] Quoted in *Shih*, The Silk Industry in Ch'ing China, 63.

[364] Ibid, 46.

[365] Calculation: 1.000.000 taels / 127 = 7874 piculs = 1.041 million lbs. Same calculation with 2 million taels. Figures for silk textiles would be approximately half.

Hence, following these sources, it seems legitimate to set Canton exports at around 10.000 or 11.000 piculs per year during 1750-1840, and to view these figures as total Chinese exports of silk to foreigners.

Second, Kenneth Pomeranz's calculation for mid-18th century Guangdong silk production yields a *minimum* of 11 million pounds of silk per year, with another *minimum* of 60 million pounds per year produced in Jiangang.

Additionally, Pomeranz quotes So, saying that Guangdong produced circa one quarter of total Chinese silk exports.[366] With total exports being about 2% of total production it means that Guangdong exported about 0.5% of total Chinese silk production. That would be about 355.000 lbs. (ca. 2600 picul) per year, or 3.2% of Guangdong's 11 million pounds annual silk output. Even though not a huge number, silk exports via Canton as a share of total production would be more than twice as high as sugar exports!

After having discussed the trade in silk, let us now turn to tea, the most important commodity of European exports.

For tea, data exists only for the end of the 18th and the first half of the 19th century. Fang Xing et altera estimate a total tea production of circa 2.6 million piculs (ca. 346 million lbs.). 85% or 2.2 million piculs of the total production may have entered market circulation.[367] Total exports amounted to 600.000 piculs (79.800.000 lbs), that is 23% of all tea produced, or 27% of all tea on the market. Exports through Canton are set at 350.000 piculs (46.550.000 lbs), thus roughly 13% of total production or 15% of tea circulating on the market, and 58% of total exports.[368] Of those 46.5 million pounds of tea exported annually before 1840, the EIC's average exports in five five-year periods[369] between 1810 and 1833 was in the region of 30 million pounds, thus commanding two thirds of the Canton tea trade at least after 1810.[370] Gardella accounts that Fujian province produced 35-69% of all Chinese tea exported to England 1740-1802.[371] Guotu thinks this share might be even higher.[372] At the end of the 18th century, maybe more than 140.000 piculs (18.620.000 lbs), not quite half of the entire tea export from Canton, were delivered to Canton from northwest Fujian, boosting some 1.7 million taels into the province *annually*.[373] So, Fujian's tea exports to Canton before 1840 was in the area of 5,3% of the total Chinese tea produced, or 6.3% of all tea on the domestic

[366] See *Pomeranz*, Great Divergence, 327-329.
[367] Fang Xing et. alt. account the value of total production with 31.86 million liang, while they calculate domestic circulation of tea with only 27.08 million liang – that is 85% of the total.
[368] Fang *Xing* et alt., The Growth of Commodity Circulation and the Rise of Merchant Organisations, 174, 185.
[369] Actually it was four five-year-periods and one four-year-period.
[370] EIC Export figures taken from *Tsai,* Trading for Tea, Table 2.1, 73.
[371] *Gardella*, Harvesting Mountains, 105f.
[372] *Guotu,* Tea, Silver, Opium and War, 67.
[373] *Guotu,* Tea, Silver, Opium and War, 81. See Guotu's Footnote 69.

market, or about 23% of the entire tea exports of the empire, or 40% of all tea exported at Canton. Tea became the single most important product of Fujian in the 18th century, likely engaging considerably more than half of the population.[374]

Taking these calculations of orders of magnitude and ratios between Chinese production and European trade as a roughly acceptable picture, shows us a striking thing: even on the regional or provincial level, European or British exports as share of total production were insignificant with sugar export making a mere one per cent and silk some three per cent of regional production. It seems that only tea was able to escape this pattern, even though there are no exact figures of Fujian's total production. Thus, these numbers suggest that peasant oriented their cropping choices according to local, domestic market need rather than answering the shouts of foreign maritime merchants. Export rates of one or three per cent do not seem to be a great incentive *per se* to me.

However, we need to consider another factor: silver. In the first chapter we saw how crucial silver was for a Hong merchant. Without silver, he was not able to purchase the deliveries the Europeans had ordered. Additionally, the Chinese hunger for silver during the century is well known and studied by scholars like Flynn, Giraldez or Atwell. Thus, before we render European stimulation as meaningless for south Chinese peasants, let us take a look at the silver income the exports we just calculated might have generated.

With a price of five taels per picul at Canton, in 1792 British sugar purchases alone might have brought some 180.000 taels into Canton's economy, maybe giving each Cantonese 0.225 taels, worth the cash - equivalent of nearly three daily wages.[375] And since "*Guangdong produced about half of the silk and most of the sugar that Europeans purchased*",[376] this estimate might not be too far from the truth.

For the following calculations, I assume that the total amounts of silver earned through foreign exports of tea or silk were distributed equally among every participant, producers, transporters and merchants alike. This was almost definitely not true, however, my calculations only aim to show the purchasing power these silver injections into the economy could have had, it is not their aim to calculate profits but possible average incomes.

For silk, its effect on very local economies cannot be denied. Marks gives the textile industry of the city of Foshan, near Canton, as example. There, he states, more than 50.000 workers processed most of the Indian cotton into cloth and sold it to the domestic market[377] - maybe even as foreign fashion? Further, silk might have been sold at some 80-130 taels per picul

[374] Ibid, 67, 84f.
[375] For Canton wages see *Allan* et altera, Wages, Prices, and Living Standards in China, Fig. 1, 16. Canton population numbers taken from: http://www.irows.ucr.edu/cd/courses/10/citypop5.xls, 10.10.2012.
[376] *Marks*, Tigers, Rice, Silk, and Silt, 64.
[377] *Marks*, Tigers, Rice, Silk, and Silt, 178, 192.

during mid-18th century.[378] Hence, foreign exports of some 2600 piculs might have generated an income of some 200.000-340.000 taels a year for Guangdong silk merchants and producers, meaning a *per-capita* supply of the entire Guangdong population of 0.015-0,026 taels (0,55-0,96 grams of silver), up to half a nominal daily wage in Canton at that time![379] Put in another way, this 3% of Guangdong's silk production would have been able to buy a day's work of 2.5 - 4.25 million people, in silver wages, in the city of Canton![380] To give a third comparison, 3% of the silk production could have bought 37.000 Guangdong inhabitants a year's total food supply![381]

Surely, not everyone did engage in sericulture. However, we do not know how many people worked in silk production. Following data provided by Pomeranz and Marks, it can be estimated that the 11 million pounds of silk produced in Guangdong needed a minimum of 1.68 million mu, 3% of the cultivated land in Guangdong.[382] Taking the average number of mu per capita given by Marks, we arrive at a population of approximately 500.000 people living on that land, which is almost certainly a very low estimate "*because of the mulberry tree and fish pond combination, the amount of land converted into the system* [of sericulture] *as a whole was substantially greater.*"[383]

However, this would yield an average income of about 0.4-0.68 taels (14.8- 25.1 grams of silver) per year for every Guangdong silk producer during the mid-18th century, enough to purchase a third to almost half of a *shi* of rice *(=picul*, thus 43-66 lbs.*)* in the mid-1750 Pearl River delta when a subsistence standard of living needed some 340 pounds of rice per year.[384] Thus, only by producing silk for foreign demand, or in other words, three per cent of a silk grower's production, could buy that person between 10% and 20% of his or her annual rice needs! Moreover, those 3% of silk production would earn the producer the entire national average per-capita-silver-supply Kent Deng has calculated for the early 19th century![385] Even if we assume the population connected with sericulture three times as high,[386] foreign exports would still buy each of them 3-9% of their annual rice needs and give them a third of national average silver supply.

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[378] *Shih*, The Silk Industry in Ch'ing China, 4, 46; *So,* The South China Silk District, Table 4-2.
[379] See *Allan* et altera, Wages, Prices, and Living Standards in China, Fig. 1, 16.
[380] Considered a wage of 0.08 taels/ person. See ibid.
[381] Considered bare bone costs of ca. 200 grams of silver. See ibid, Table 5, 25.
[382] *Pomeranz,* Great Divergence, 327; *Marks*, Tigers, Rice, Silk, and Silt, 280.
[383] *Marks*, Tigers, Rice, Silk, and Silt, 182.
[384] For rice prices see ibid, 213. For subsistence costs see *Allan* et altera, Wages, Prices, and Living Standards in China, 21.
[385] Deng, Nanking System, 9.
[386] Marks estimates that about 17 million mu of Guangdong's land were used for cash crop cultivation in mid-18th century, that was 40% of total cultivated soil. Mulberry trees were among the most important cash crops, so maybe using a third of that land, 13% of total Guangdong cultivated area. On those 13%, on average 1.7 million people might have lived, thus about thrice the amount of people I used for calculation above.

Additionally, following Guotu's figure of the Fujianese population of ca. 4.4 million, and 1.7 million taels silver inflow per year, foreign tea sales directed "*one fifth of the gross value of China's export industry* […] *to an area with a population of about 1% of the whole country*"[387] during the first third of the 19th century. On average, *every* Fujianese would have been supplied with some 0.38 taels (approximately 14 grams of silver[388]) alone by tea sales to Canton. Again, in other words, this money influx would have been able to pay the *entire* Fujianese population an average daily wage for almost thirteen days in a row per year! Pomeranz estimates the wage of a landless male agricultural labourer in Jiangnan in mid-18th century at 2-5 taels cash *per year* whereas year-around employed spinning women's wages were at 3.7 taels for 200 days work using high commodity prices, and prices decreased substantially towards the 19th century.[389] Robert Allen estimates daily silver wages in Fujian at between 0.03 taels in mid-18th and early 19th centuries.[390] Hence, our 0.38 taels *average income for every Fujianese* would be equivalent to almost 19-7% of the male agricultural Jiangnan labourer's annual wage, or about 10% of the weaver's 200 days wage, or more than twelve Fujian daily wages! So, even taking those average numbers, foreign trade in tea alone would have paid *every single* Fujianese more than ten days of holidays per year, a Jiangnan agricultural labourer would have been able to enjoy 25-72 workless days and maintain his standard of living with such a silver income! Put differently, those 1.7 million taels of silver would have had the purchasing power of an incredible number of 56.6 million working days at Fujian average silver wages! Those are incredible high amounts! Furthermore, it would be 76% of Deng's claim of average per-capita silver supply of the Chinese population in the decade before the first Opium War[391], providing every Fujian inhabitant with nearly four fifths of national-average silver supply! If we do the same calculation with half of the population producing tea for export, every single *tea producing* person would have earned 0.77 taels on annual average, or 25 days off for daily workers, or almost 140 days off if one were employed on a farm in Jiangnan, or in the case of the female weaver, she would have been able to go on a break for nearly 42 days a year! 0.77 taels would be more than 150% of the national average per-capita silver supply! Cleary, these calculations are quite abstract and counter-factual, but what they indicate is that producing tea for foreign export alone offered an incredibly promising alternative for Fujian's population, and fostered the province's monetization. Certainly the distribution of these silver inflows was most likely very unequal among Hong merchants, middle-men and producers. Still, someone earned it and the

[387] *Guotu,* Tea, Silver, Opium and War, 89f.
[388] Vries, Ökonomie des Tees, 8.
[389] Pomeranz, Great Divergence, 319-321, 323-26.
[390] See: *Allan* et altera, Wages, Prices, and Living Standards in China*,* esp. 12, 13, 16, 33-35.
[391] Deng, Nanking System, 9.

monetisation of Guangdong indicates that it those who earned the silver did spend at least a part of it, it was not *hoarded*. Silver did reach an expanding market and it had an incredible high value and purchase power on this market. Thus, it seems to be quite likely that earning silver indeed was a great incentive for people to turn towards export production and reorient their income strategies.

To summarize I have shown how incredibly important silk and tea growing might have been for the inhabitants of Guangdong and Fujian. Annual sales to foreign merchants at Canton alone would have been able to pay a fifth to a third of Guangdong's population one average daily wage, and foreign silver payments for tea from Fujian hypothetically could have been enough to employ everyone in the province for nearly two weeks! Even though a good deal of the inflowing silver might have stayed in Canton with the Chinese monopolists, those did spend it for economic as well as social reason. The numbers presented may give a certain impression of how valuable silver was in China. However those sales to foreigners only made tiny shares of the provinces' total production, it is incredible how much money one might have been able to make by engaging in this business. Additionally, the cities of Canton and Macao, which I have omitted in my calculations entirely, with their super-rich Hong merchants, wealthy officials, other merchants and employees of foreign trade like linguists and so forth, were probably both very strong and demanding markets indirectly generated by foreign commerce and boosting the regional economies. With profits in mulberry production maybe being five times as high as for rice production,[392] European demand for silk and tea and the correlated influx of silver into the regional economies must have been a more than attractive reason for farmers to abandon – or limit – rice cultivation in favour of those *cash* crops as "*rising demand for silk and sugar resulted in the increased production of those commodities, and a corresponding shift in land use patterns to meet the demand*."[393]

Therefore, Robert Marks's claim that foreign commerce drove the expansion of cash crop production in southern China seems to be quite justified. Hence, it was not the amount of commodities that was the prime reason for this change, but the prices paid for them and the medium those prices were paid with: silver! The data used here visibly reveals the impacts foreign silver could theoretically have had on regional production choices and economic opportunities. Foreign commerce was likely a very much convincing incentive for Guangdong and Fujian peasants to shift their production from rice to cash crops. As Marks himself turns it, the "[…] *substantial increase in foreign and domestic seaborne trade* […],[was] *driving economic growth and the commercialization of agriculture* […,] *prompting some peasant-*

[392] *Marks*, Tigers, Rice, Silk, and Silt, 184.
[393] Ibid, 64.

*farmers to change their cropping patterns, growing non-food commercial crops instead of rice, and in turn leading to the further commercialization of rice. By the end of the eighteenth century, the agricultural economy of Lingnan had become thoroughly commercialized* […]*, affected by market demand centered on Ghuangzhou and the Pearl River*.[394] Thus, even if foreign exports were quite insignificant when it came to absolute amounts of goods traded, their relative importance was substantially greater due to the silver inflows that stimulated an economy that was relative short of silver!

However, such a point could not have been reached in just a few years. The question remains how it came to this. Shifting from rice being the basic food to cash crop production did bear risks for cultivators which should not be underestimated. The expansion of silk and tea cultivation, answering interior as well as exterior demand during the 18th century did not happen overnight and "[…] *peasant-farmers often followed the 'safety first' principle, where subsistence concerns weighed heavily in their cropping choices*."[395] So, there must have been a certain development of the silk sector before the 1750s to create incentives for tenants to engage in silk cropping. In the course of the 18th century, especially the production of sugarcane, silk, and tea was integrated in an accelerating process of commercialisation, driven by foreign stimulation and silver injections, having great effects on the production and supply of rice in southern costal China. As will be shown in the following pages, the changes in peasants' agricultural behaviour in Lingnan were closely interlinked and integrated in a macro-regional, trans-boundary and transnational trade system evolving, or at least intensifying more or less contemporarily with the Canton System.

[394] *Marks*, Tigers, Rice, Silk, and Silt, 163.
[395] Ibid, 184.

## 2. The Monetisation of the Economy and the Development of Markets

After having discussed the general role of foreign trade for the Lingnan and Fujian economies, a question shall be raised that is closely connected to the observations just made. If foreign silver really was such a great incentive for Chinese peasants to turn away from rice production, this includes the fact that peasant-producers could *use* silver. If silver had not had an exchange value and was not used in relatively ease in daily transactions as medium of exchange, rural smallholders would simply not have turned to produce goods giving them cash silver instead of food. So, a growing number of farmers relying on cash crop production imply a growth of options to exchange those cash crops against living needs. Thus, the next part of this chapter will raise the question if foreign silver did support a growth of the domestic market by decreasing direct non-market exchange and increasing growing reliance on the market as intermediate of transactions. Second, the increasing spread of cash cropping at the expense of rice especially in Guangdong must have had several consequences on the pattern of its economy. What where those consequences, what exactly drove them and what changes did they bring about?

I will answer this question by observing the visible consequences the rise of cash crops in Guangdong had: the evolving deficit of rice supply. The production and commercialisation of rice is itself a quite good indication of the market orientation and production of small holders. Since rice was the basis of nutrition, a chronic deficit of rice supply can thus be a hint towards cash cropping instead of rice cultivation. This turn would be followed by increasing market activity for the market functioning as collector and distributor of commodities. Thus the shift from producing rice to producing cash crops is most closely connected to an increasing number of markets. Since increasing production has likely answered increasing demand, both domestic and from the outside, the commercialisation of rice can be quite a good indicator for the spread of cash cropping and an orientation of the producers towards market opportunities and away from production choices dominated by subsistence thinking. So, if Europe's silver was such a great incentive for south China's peasants to abandon their reliance on subsistence supply, this must be visible in changes and developments of rice supply. The following pages will observe the far-reaching effects the Canton trade had on trade, networks and the economy of the Chinese hinterland that had to happen in order to sustain the Guangdong/Fujian-Europe connection.

Guangdong's shortage of rice seems to have its origins somewhere between the very late 17th and the early 18th centuries, at about the same time when, first, the Chinese population started its dash towards the 400 million mark and second, as European trade at the China coasts grew more and more regular. However, this deficit was to some extent caused by the government's turn to demand taxes in cash. This development already had its antecedents during the time of the Ming dynasty that started to collect land rents in cash during the 16th century. After having secured their rule over China, the new dynasty continued this path by the *single-whip* reforms, transforming tax rent and poll tax into a single duty, payable in cash, thus forcing the population to orient towards market production to some degree.[396] Aiming to increase tax income, the Qing emperors started a policy of supporting land reclamations and the expansion of land under cultivation that generated a continuing spread of people across the Empire and into areas that weren't cultivated before.[397] Land reclamations fostered population growth and cash taxes fostered economic commercialisation. For example, the growth of people living in Guangdong led to an increasing demand for cotton (cloth) within the province, while the reopening of Chinese foreign trade after 1684 recreated a foreign market for cotton products eventually causing cotton imports from central and northern China to supply textile industries like in Foshan. The establishment of new tax regulations and of this intra-Chinese and -Asian trade in cotton and sugar were certainly the most important early reasons for peasants to turn away from rice cultivation without being too influenced by foreign stimulation. Governmental efforts to encourage and support land reclamations in turn enabled certain areas to specialise in non-rice cropping by creating a Chinese domestic hinterland, supplying cash croppers with rice and other basic commodities. Then "[…] *the resumption of Chinese overseas and coastal trade in the late seventeenth and early eighteenth centuries provided the impetus not just to economic expansion following mid-seventeenth-century crisis, but also to the commercialization and specialization of agriculture in Lingnan.* […] *Peasant-farmers there substituted sugarcane for rice in response to market stimuli and in turn purchased rice in the market*, [while] *the demand for sugar was mostly domestic, not global* […].[398] The "*sixteenth-century national trade was to further expand along coastal routes in the seventeenth and eighteenth centuries*" and "*the use of sugar in the Qing had evidently expanded beyond sugar-producing regions*".[399]

At the beginning of the 18th century, Guangdong was already importing three million *shi* of rice from neighbouring Guangxi province per annum, enough to feed the combined

[396] *Mazumdar*, Sugar and Society in China, 290.
[397] See esp. *Marks*, Tigers, Rice, Silk, and Silt, 288-308.
[398] *Marks*, Tigers, Rice, Silk, and Silt, 175-76.
[399] *Mazumdar*, Sugar and Society in China, 41 and 48.

population of Canton and Foshan![400] However, this growing market orientation seems to have raised concerns about food supply. As early as 1727, the Yongzheng Emperor recognized Guangdong's and Fujian's deficit-ridden rice output, said to being caused by "*the sake of profit*".[401] Together with a growing share of urban population not, or only marginally, engaging in rice production, the decrease of rice cultivation may have caused Guangdong to import up to half of its rice needs in the early years of the century![402] To meet this, the government tried to limit the trade in non-food crops by restricting the amounts of commodities like silk allowed to be transported to, or to be sold at, Canton.[403] In despite of that, in the early 1700s, especially when European trade at China's coasts was still in its infancy, Guangdong's economy was surfing on a wave of economic expansion and commercialisation that was to a good deal driven by interior forces and to some degree by exterior forces. There was a market big enough to supply rice for nearly seven million people in Guangdong. Towards the end of the century almost "[…] *half the population, farming only 28 percent of the cultivated land, depended on the grain trade to survive; the areas with insufficient grain supported high population densities, higher than those for Western Europe, and were the developed provinces of the empire. In other words, long-distance trade was involved in feeding almost half the population.* […] *Finally, 45 percent of the population produced a foodgrain surplus, which entered the market economy to support the demands of roughly half the empire's population. During the eighteenth century, the developed areas of the coastal provinces became increasingly dependent upon the developing region's supply of grain. Annual grain shipments moved through an ever expanding market economy, often supplemented by state grain shipments to alleviate grain shortfalls*."[404]

So, we need to determine that Chinese state policy and tax reforms forced the population to orient towards market production before the Manchu dynasty had conquered the Heavenly Empire. There was a certain degree of commercialisation and spread of markets that enabled coastal producers to specialise for example in sugar production for the domestic market even before European demand at Canton began to push silver into the province. Land reclamation programs supported by the state had created Guangdong a hinterland supplying its export-oriented, commercializing areas with food. So, when European demand made costal peasants turn away from subsistence cultivation, there was already to some degree a market structure for rice. This market had developed out of interior political and economic forces. Moreover, without this hinterland-market existing, the increasing commercialisation and specialisation

[400] See *Marks*, Tigers, Rice, Silk, and Silt, 252-255.
[401] Quoted in *Mazumdar*, Sugar and Society in China, 263.
[402] See *Marks*, Tigers, Rice, Silk, and Silt, 183.
[403] *Shih*, The Silk Industry in Ch'ing China, 64-65.
[404] *Myers* and *Wang*, Economic Developments 1644-1800, 568-9.

on export trade of parts of southern coastal China would not have been possible. However, let us continue with the development of commercialisation during the 18th century, when European trade finally became a driving force of cropping choices among Chinese peasants. We can start with two general observations concerning Lingnan's market structure. First, the counties surrounding the city of Canton had the highest density of markets among the province's prefectures around 1730, forming "*a roughly correspondence between density* [of markets] *and distance from Guanghzou.*"[405] Second, those areas with a high density of markets were often areas of deficit grain production.[406] Thus, first, the areas near the City of Canton were among the most commercialised areas of Guangdong, and second, there was indeed a direct link between cash crop production and marketization or between growing cash crops and purchasing rice on the market. Guangdong's economy was certainly oriented towards the Pearl River delta with Canton and Foshan forming the province's two-headed commercial centre by that time. While Kent Deng analyses the Chinese market structure as "*overwhelmingly rural and fragmented*", dominated by small village markets with only a small percentage of the population frequenting urban markets,[407] Marks draws a much more positive picture for southern China. According to him, there were four kinds of markets active in Lingnan: first there was the *village market* at the lowest level, dealing in rather small quantities, serving one or more villages and providing the rural population with daily needs in exchange for cash crops. Those markets were probably served by small scale, local and itinerant merchants. Second was the *central market*, connecting maybe ten to twenty village markets and dealing with farmer's equipment, animals and imports such as fruits, fish fry and silk worms while mostly exporting rice and silk to the next level market. Central markets were indeed most important for silk production, "*linking peasant-producers of raw silk to the export market in Foshan and Guangzhou.* […] *a few became specialized in the silk or the fish markets. The market at Jiujiang in Nanhai county dealt only in silk, which then was shipped to Guangzhou or Foshan for export.*"[408]At central markets, medium brokers, maybe local urban merchant families, accumulated goods from the village markets surrounding them. Third, the *secondary* market, or wholesale market, for example in Macau or Jiangmen, operated by provincial-level merchants, served as a stocking and distributing centre, collecting greater amounts of commodities from the central markets before proceeding them to the *regional market*. For this, the secondary markets functioned as intermediates between the large-scale regional and the small-scale rural or medium-scale central markets. In Lingnan

[405] *Marks*, Tigers, Rice, Silk, and Silt, 185.
[406] See ibid, Map 5.2a, 186 and Map 8.1, 253.
[407] Deng, Nanking System, 4.
[408] *Marks*, Tigers, Rice, Silk, and Silt, 191.

the regional market was the Canton-Foshan combination, whereby Foshan was the centre of the cotton and textile industry, iron pot manufactory and of the final roasting of tea going to Europe via the Canton market, which worked as a foreign harbour as we know. Additionally, Foshan, using the West River, was the main collector and distributor of imported rice from Guangxi, and received tea from Fujian and beyond via the Meiling Pass and the North River.[409] "*As an integrated market for rice began to link all regions of Liangan into a unified market, the West River basin in Guangxi came to specialize in rice for export to Guangzhou and the Pearl River delta* […]."[410] While the Hong merchants were obligated to conduct the international business in Canton, in Foshan interprovincial merchants gathered commodities to supply the Hongs as well as to send imports like rice down the market-ladder and back to the village markets.[411] Certainly, it was the development of this kind of provincial markets that sustained the growth of Chinese domestic trade in silk, which arose at the same time.[412] Though Marks does not disagree with Kent about the number of rural and urban markets, he draws a much more differentiated picture of Lingnan's market structure, with Mazumdar supporting this view.[413] There were there a lot of those rural markets, however, they were just the first, simplest link of a chain of markets of various types, with various functions and participants. Yong Xue's interpretation of this system of many small markets contradicts Deng's thesis briskly. He states:

"*On the other hand, peasants of ordinary means could hardly maintain their subsistence reproduction without market visits.* […], *in Chongde county of Jiaxing prefecture, the harvest from the paddy fields could only feed the local population for eight months in the late Ming. An early nineteenth-century gazetteer even reports that "each person has less than one mu of land and year round cultivation cannot provide living expenses for more than two or three months." In many cases, peasants were forced into towns either for work or for food purchases. Lack of capital might have limited peasants' ability to make long trips. But it also forced them to increase the frequency of visits to the market, since they could not make a large-scale purchase, and had to return at intervals. The development of the urban system during the Qing responded to the needs of poor peasants. From the late Ming to the late Qing, the most salient phenomenon in Jiangnan's urbanization was the increase in the number of towns rather than their size. The emergence of the new towns decentralized urban*

[409] See e.g. *Mazumdar*, Sugar and Society in China, 297.
[410] *Marks*, Tigers, Rice, Silk, and Silt, 249.
[411] For the description of markets I followed *Marks*, Tigers, Rice, Silk, and Silt, 191-192. For merchants see *Mazumdar*, Sugar and Society in China, 303-313.
[412] See e.g Bozhong *Li*, Agricultural development in Jiangnan, 1620 – 1850 (Studies on the Chinese Economy Basingstoke 1998), 107. Though Li speaks about Jiangnan's export to the domestic market, I think it is justified to claim that Guangdong/ Lingnan as the second most important silk producing area experienced a similar development.
[413] See *Mazumdar*, Sugar and Society in China, 313-322, esp. Table 16, 314.

*markets and shortened the distance between urban settlements, enabling peasants to make shorter but more frequent trips for their urban visits*."[414]

"*In this ecological cycle and market transaction, it was peasants who sustained the heartbeat of the interaction between cities and villages*."[415]

Even though Xue speaks about Jiangnan, his result might also be true to some extent for Lingnan. Concerning Lingnan, it seems there was a very vivid system of markets of different scales, connected with one another, and by that connecting even the rural population with other counties, provinces, or even countries.

Additionally, the number of those markets, or the market density, grew on a quite steady basis throughout the century, with the middle 50% of all counties having about twice as many markets in 1835 as they had in 1731, indicating an overall growth of commercialisation.[416]

According to Mazumdar, the number of *standard markets*, equal to Marks' *village markets*, in the Pearl River delta grew from almost 300 in the beginning 1720s to more than 400 about a decade later and continued to increase to nearly 600 markets around the Opium War, thus performing "[…] *the most rapid increase in the number of markets in Guangdong Delta* […] *in the seventeenth and eighteenth centuries rather than in the nineteenth.*"[417] Thus, both authors recognize an overall growth and expansion of Lingnan's market structure during the 18th century when foreign silver stimulated the economy as well as an integration of most parts of the province into one market system.[418]

A sign of this is the increasing stabilization of rice prices in Lingnan in the course of the century, indicating the "*creation of an integrated market for rice, linking virtually all of Lingnan into a single market.*"[419] "[…] *Rice prices in the third period (1762-1800) were more stable and predictable from one year to the next than in the previous two periods* [1707-1731 and 1731-1758]. *This price behavior would be consistent* […] *with a smoother operation of markets without state intervention* […]."[420]

Furthermore, they too agree about the fact that the greatest growth in the number of markets happened in those areas where the production of silk in particular, dominated. Marks gives Nanhai, "*the county most connected with both the silk and the cotton textile industries*",[421] which today is a district of the City of Foshan, as an example. There, the number of markets

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[414] Yong *Xue*, "Treasure Nightsoil As If It Were Gold:" Economic and Ecological Links between Urban and Rural Areas in Late Imperial Jiangnan. In: Late Imperial China Volume 26 No. 1 ( June 2005), 54.
[415] Ibid, 63.
[416] See *Marks*, Tigers, Rice, Silk, and Silt, 188, esp. Table 5.7.
[417] *Mazumdar*, Sugar and Society in China, 313, for numbers see Table 16, 314.
[418] See *Marks*, Tigers, Rice, Silk, and Silt, 249-266, esp. Map 8.3, 259 and 262-263.
[419] Ibid, 257.
[420] R. *Marks* and Chen *Chunsheng*, Price Inflation and its Social, Economic, and Climatic Context in Guangdong Province, 1707-1800. In: T'oung Pao, Second Series, Vol. 81 Fasc. 1/3 (1995), 149.
[421] *Marks*, Tigers, Rice, Silk, and Silt, 188.

grew steady since the mid-16th century from less than 25 to some 50, stagnated during the second third of the 18th century, and then soared from about 1775 "*after the major increase in trade with Europe*",[422] growing to almost 175 before 1850.[423]

The increase of exports to European merchants via Canton was not the only thing that happened during the 18th century, but this increase of exports led to increased incentives for farmers to turn away from producing rice. To support this, the already existing network of trade to Guangdong's and Lingnan's hinterlands expanded, answering the subsistence need of now silk, cotton and tea producing peasants and being incorporated into this system by foreign silver. Some areas of the province became highly specialised in producing for local or foreign luxury demand. During the 18th century, Europe's silver was neither the only cause, nor the elicitor, but an important mover of Lingnan's increasing commercialization.

As Marks summarizes:

"*By the eighteenth century, then, markets throughout Lingnan linked peasant-farmers specializing in one or another agricultural product not just to other peasant-farmers, but to regional, national, and global markets. In brief, peasant-farmers in the Pearl River delta produced silk for the European market and sugarcane for shipment to markets in central China, and had their food needs met by rice imports from the vast hinterland drained by the East, North, and West Rivers* […]. *Rice became a commodity* […] *no longer grown merely to be consumed* […]*, but sold on the market*."[424] "[…] *The commercialization of agriculture created a dense network of rural markets, where the peasant-producers sold their commercial crops and purchased food. Markets were important not just for the nonfood commercial crops and products, but especially for rice, for peasant-farmers in and around the Pearl River delta would not have responded to the national and world demand for silk and sugar by converting their rice paddies to fish ponds and cane fields without reasonable assurance that they could obtain their food supply from the market."*[425]

"*Thus, in south China* […] *the agricultural and settlement frontiers expanded along with their commercialization, stimulated by demand from the outside which also generated local demand – and supply – and which were financed by the inflow of money from abroad.*"[426]

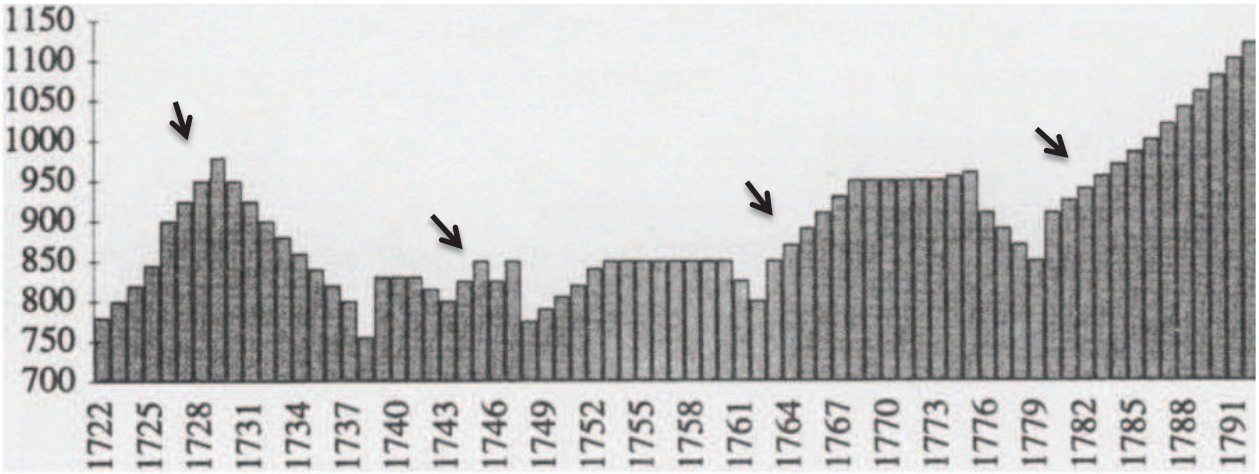
As we now have seen, European commerce at Canton was not only a very important economic factor for Chinese peasants and the regional economy around the city, but it also greatly helped this economy to become commercialized and to expand and intensify its local trading networks, as well as the mercantile connections to its hinterlands. However, we too

[422] *Marks*, Tigers, Rice, Silk, and Silt, 188.
[423] Ibid, Figure 5.8, 189. See Also *Mazumdar*, Sugar and Society in China, Table 16, 314.
[424] *Marks*, Tigers, Rice, Silk, and Silt, 193.
[425] Ibid, 194.
[426] Frank, ReOrient, 162.

have seen the relative value or, say, the purchasing power European silver had in Guangdong's weakly silver-supplied economy. With a number of about two million silver taels during 1760s-80s, nearly six million before the turn of the century and more than eight million taels per annum before 1830, sales to Europeans generated a silver influx equal to 20% of the total annual Chinese tax incomes of the 1820s-1840s.[427] Additionally, most of this silver seems to have come into circulation.[428] With such a dramatic increase in silver or cash supply, the question about prices rises. The last part of this chapter will ask whether or not foreign silver imports had direct effects on prices in Lingnan? Did they cause inflation? Firstly it is important to observe the relative value of silver is its exchange ratio against copper cash, as it is pictured in Figure 6. In general, peasants used copper as a regular day-to-day cash for small purchases, whereas silver was the unit for official and wholesale transactions. The government's standard copper-silver exchange rate was 1000 copper coins per silver tael. However, there were various deviations from this mark. In general, the higher the exchange-ratio between copper and silver, the dearer silver was (or the cheaper copper was).

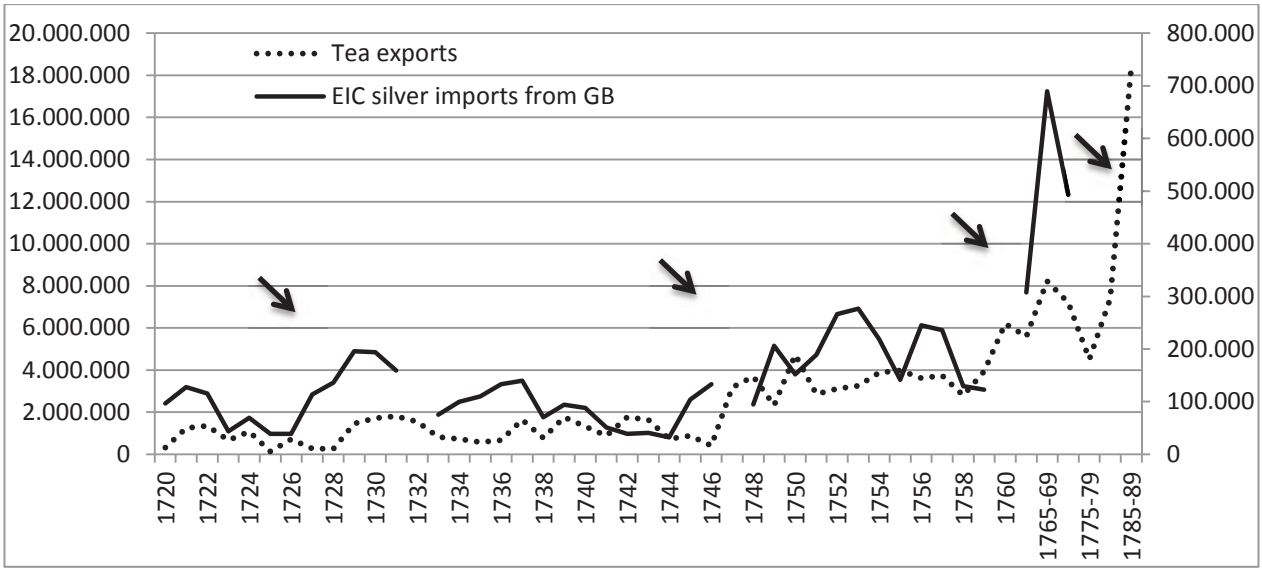
Figures 9 and 10 present first, this silver-value expressed in copper during most of the 18th century and second, show the amounts of tea exported by the EIC in the same period.

Figure 9: Copper Cash Per Silver Tael, 1722-1800[429]




[427] For silver influx see *Marks*, Tigers, Rice, Silk, and Silt, 179, Figure 5.4. For Chinese tax income see *Deng*, Nanking System, 4.
[428] *Marks* and *Chunsheng*, Price Inflation, 121.
[429] Source: Man-houng *Lin*, Currency and Society: The Monetary Crisis and Political-Economic Ideology of Early Nineteenth Century China (Harvard University PhD 1989), 23. Quoted in *Marks* and *Chunsheng*, Price Inflation, 121.

Figure 10: EIC Tea Export from Canton and EIC silver imported from Great Britain 1720-1799, in lb. (left axis) and £ (right axis).[430]




Comparing both figures reveals striking resemblances.

Figure 9 shows that, measured in copper, silver grew more expensive from the 1720s, peaking around 1730. After that the price of silver recovered during the '30s, increased again from the beginning '40s, and maintained its level until the end of the 1750s with some exceptions. Then, from the beginning '60s, silver prices in copper again grew significantly, and after having kept this high constant for some 20 years, soared from the beginning '80s to an all-time high in the mid-90s. Most strikingly, the curve picturing EIC tea exports from and silver imports into Canton can be described almost identically. It can be seen here that, the curve of tea purchases behaves roughly like the curve for silver. However, it must be remembered that silver was always *a step ahead* of tea movements, with silver imports generally increasing a couple of years before tea exports rose. This certainly can be explained with the money advancements given to the Hong as discussed in chapter one. Due to the great differences in volume in Figure 8, some of the peaks appear unspectacular, but they are not. One needs to closely notice the specification of volume and notice the differences from one year to the other. The four arrows in each figure, let us call them A, B, C, and D from left to right, refer to significant resemblances both curves share. Arrow A shows the situation around 1730. As pointed out in the first chapter, the end of the 1720s saw a serious struggle for market

[430] Sources: For Tea 1720-1760: *Chaudhuri*, Trading World of Asia, 538-9; 1760-1799: *Tsai,* Trading for Tea, 73: (converted into lbs.). For silver: Chaudhuri, 512; *Tsai,* Trading for Tea, 120. After 1780, tea exports soar to 18 million pounds per year. Due to graphic reasons, the numbers for those years are omitted here, the same applies to silver imports of £3.2 million during 1785-89.

dominance among European as well as Chinese merchants, bringing about the entrance of the Dutch into the direct China trade and causing the EIC and the Ostenders to greatly increase their tea purchases. Coinciding with the accelerating competition and purchases of EIC, VOC and Ostend Company during the 1720s, silver prices in copper increased especially in the second half of the decade nearly 20% of the 1725 exchange rate of 850 copper cash per tael, which seems to have been something like a "regular" copper-silver ratio rate before the 1760s. Arrow B then hints towards the second half of the 1740s. Looking quite unimpressive, there was indeed a little increase in silver prices at that time, rising from rather low prices to a regular or slightly expensive price level. At the same time, British silver imports into Canton grew significantly again, especially in 1744-46 as tea exports recovered from the crisis of the early to mid-1730s. Though much less obvious than in the previous case, once again European silver imports and an increase in the cost of silver in China took place simultaneously. If there was a certain connection between foreign silver imports and the copper-silver-ratio in China, this connection is much less clear during the fifth decade of the century, when the price for silver maintained a very stable and regular level of 850 copper cash. British silver inflows though, varying greatly from year to year, reached the highest level it had ever had up until this date. An explanation might be the expansion of domestic Chinese copper mining and minting, especially in Guangdong, maybe decreasing the reliance on silver and stabilizing the latter's price measured in copper cash.[431] Moreover, one could argue that the Canton System had developed a steady and continuing growth and reliability by the '50s, so that the influx of silver might have become somewhat regular and market reactions on annual fluctuations decreased. Whatever the explanation might be, between 1760 and 1780, the figures again follow a common trend as Arrow C shows. With the establishment of the Co-Hong and the great expansion of tea ex- and silver imports, silver prices rose, too, especially after 1764 and maintained a very high level until circa 1777, when tea and silver exchanges also decreased. Then, after 1780 and with the spectacular expansion of EIC tea exports, silver prices soared (Arrow D). Again, British silver imports are omitted in Figure 10 due to graphical reasons. The amount for the column 1785-89 would be as high as £3.2 million!

To summarize, it seems that foreign silver imports might have had a certain effect on domestic Chinese currency relations. However, this does not prove inflation. Figure 11 shows the relationship of rice prices and harvest yields in Guangdong province during the 18th century.

[431] See *Marks* and *Chunsheng*, Price Inflation, 119-120.

Figure 11: Harvest Ratings and Rice Prices, 1707-1795[432]

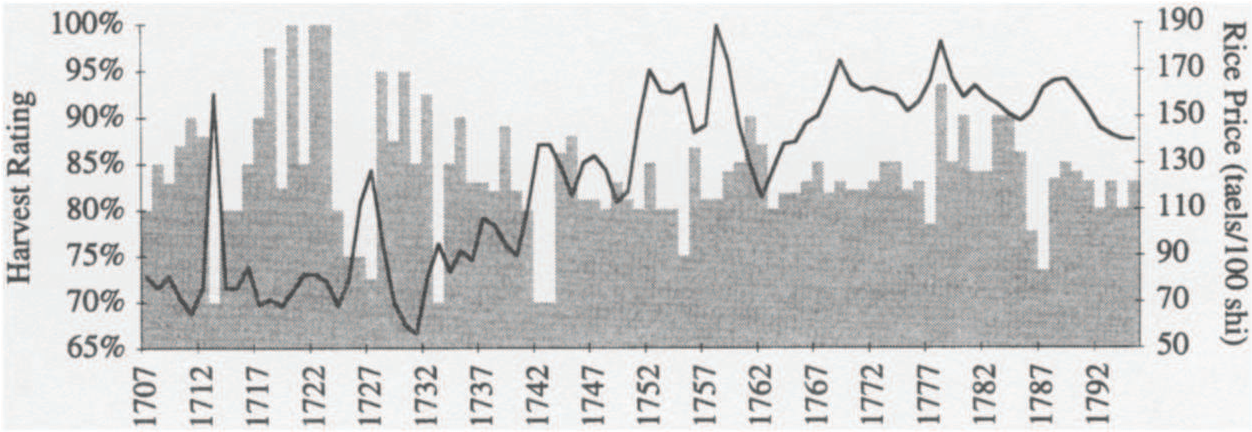



Figure 11 provides two important details of information. First, during the first half of the century, rice prices were closely connected with harvest yields. Where bad yields drove prices up, good yields meant low prices. The silver price for one *shi* of rice hovered around the mark of 70-90 taels. Moreover, from the beginning of the '30s, prices began to rise drastically, not quite doubling until the mid-century. However, second, this connection seems to loosen to some extent after circa 1760, when harvest yields remained quite steady, especially before circa 1780. Nevertheless, rice prices in silver maintained at a very high level, being more than twice and sometimes nearly thrice as high than at the beginning of the century. Thus it seems to me that the price for rice in the Guangdong province was to some degree "declutched" from the province's own rice production. This could either hint towards the growing reliance on rice imports due to cash crop production, or towards inflation driven by foreign silver imports, driving commodity prices up. Paul Arthur van Dyke presents data for commodity prices in Canton, suggesting that the prices for seven items like beef, eggs, fish, goat, pork and poultry rose about 360% on average 1704-1833.[433] Arguing against price inflation in China caused by European silver, Andre Gunder Frank claims: "[…] *the evidence suggests strongly that throughout most of Asia the increased arrival of money from the Americas and Japan did not substantially raise prices, as it did in Europe. In Asia instead, the infusion of additional new money generated increased production and transactions, as well as raising the velocity of money circulation through more extensive commercialization of the economy.*"[434]

Certainly, Frank is right regarding his argument about commercialisation, the use of money and increasing production, as I have argued for the same phenomena before. However, since

[432] Figure taken from *Marks* and *Chunsheng*, Price Inflation, 127.
[433] *van Dyke*, Port Canton, 513.
[434] *Frank*, ReOrient, 157.

Guangdong was the first area in China to receive a good deal foreign silver, I think this case might depart from the general Chinese picture. I have mentioned the relative value of silver in Guangdong's and Fujian's economies. Canton, being the single port to receive nearly all silver entering China, might have accepted at least 26.000 tons of silver coming from Europe, or 702 million taels, during the 18th century, making an average of 7.2 million taels per year.[435] That is circa a fifth of the total Chinese tax income before 1840, a huge number that in part reaching Guangdong is likely to have been a more than serious increase of the province's silver supply, and maybe more than the commercializing economy could integrate! Even though these numbers are suggestive and evidence is neither abundant, nor perfectly clear, combining the information about copper-silver ratios, British silver imports and Chinese prices for rice and other commodities, I would suggest the interpretation that foreign silver probably had the power to inflate the copper price of silver and commodity prices in Lingnan. Given the rather poor level of monetisation likely prevailing in Lingnan and the great amounts of silver flowing into the province, it does not seem entirely implausible to make such an assumption. This perspective is supported by Susan Mann Jones and Philip A. Kuhn, arguing for a "*long-term inflation of grain prices* […]. *During the course of the eighteenth century, prices rose some 300 per cent, and so enabled the peasants to cope with increasing tax demands. Among the more obvious reasons for this inflation was the increasing silver supply from European sources. Increasing populations in the major commercial centres may also have spurred the rise in grain prices*."[436]

Summarizing the observations made in this chapter, we arrive at three very important, coherent developments that explain the Chinese economic development of the 18th century. First, an *intra*-Chinese, *inter*-provincial specialisation or division of labour between rice producers and cash-croppers was developing out of governmental policy of land reclamation and expansion of cultivated area throughout the empire, fostering and fostered by population growth, and later foreign commercial stimulation, which was the cause for some coastal areas to abandon rice production in favour of tea, silk and sugar. The establishment and expansion of this overwhelmingly intra-Chinese market for rice was a crucial condition, first, to enable population growth and second, to give people in Guangdong and Fujian the option to switch to non-food cultivation. The intra-Chinese exchange system of sugar and cotton had certainly been an early cause of division of labour and market development. Without commercialisation beyond the products and crops dedicated for export, neither population growth, nor the

[435] *Frank*, ReOrient, 147.
[436] Susann *Mann Jones* and Philip A. *Kuhn*, Dynastic Decline and the Roots of Rebellion. In: J.K. Fairbank (ed.), The Cambridge History of China. Vol. 10 Late Ch'ing 1800-1911 Part I (London/ New York/ Melbourne 1978), 129.

increasing commercialisation of export commodities, nor foreign export or the Canton System itself would have been able to perform the accelerating growth they did perform in the 18th century. The development and increasing smoothing of an inter-provincial trade network was *the* crucial precondition of the spectacular growth of the Chinese population, as well as of the trade between the empire and European merchants.

Second, European silver imports into Canton did certainly have huge effects on the regional economy. The amounts of silver being injected into Guangdong and Fujian increasingly drove peasants to reorient towards the production of luxury crops such as silk and tea, and to rely on an expanding network of markets throughout Lingnan and Fujian to purchase their subsistence needs. Foreign trade was not only a convincing stimulus for peasants, but most likely a highly profitable source of income, maybe providing those producers with a good deal of their annual living needs. Additionally, foreign trade deepened the division of labour between Chinese producers in different areas, because hinterland producers specialized in rice production to sell their output downstream to coastal areas where demand and prices were the highest. This macro-pattern, being true for almost the entire empire, is visible within the micro-area of Lingnan, where growing European desire for silk and tea vividly supported the division of labour between rice-growing Guangxi and cash-crop-exporting Guangdong. This division of labour again could only have been possible with an increasing market activity, connecting producers and distributing commodities according to need. Thus, foreign trade – in silver - and the commercialisation of Guangdong and its hinterland were bound to each other by this reciprocal impact each had on the other.

Third, given the circumstantial evidence, the influx of foreign silver into the economy may have been one cause of the growing inflation throughout the 18th century. Rice prices seem to have increased nearly threefold between circa 1700 and circa 1800 and so did other commodity prices, too. The copper costs of one tael of silver grew significantly, especially after 1760, reaching an exchange ratio that had increased by some 40% against the primal rate of 850 copper per tael.

Concluding, it thus needs to be conceded that European silver did play a crucial role for the Lingnan economy, regardless of how small the share of exported amounts of tea and silk was of the total production. Silver helped to foster marketization and monetisation, stimulating the commercialisation of the area's agriculture, and deepening or expanding trade networks within the province and into other provinces. Nevertheless, this foreign export trade of the 18th century was integrated into a domestic Chinese exchange network and was based on already existing production and trade patterns. It in turn provided a major stimulus for these

patterns to expand and consolidate horizontally as well as vertically. So, without this silver, trade with Europe might not have been able to reach the spectacular export numbers that were achieved by the 19th century. However, foreign trade and its expansion depended on a powerful hinterland supplying basic food needs, which in turn was stimulated and expanded by silver.

Thus, the involvement of China's southern provinces in a global trade network did have very important effects on its economy and economic structure already in, and increasing during the 18th century. Still, the question remains why this could lead to the Opium War, crisis and China's fall.

The last chapter of this paper will have a look at what happened during the first half of the following century to explain the global economic changes evolving at that time.

# III. An Outlook: The Way towards the Opium War

With the Canton System having an important influence on at least southern China during the 18th century, can the changes within this system have been a reason for the Chinese economic performance during the following century? In the course of the first chapter, I have shown the development of the Canton System until circa 1800 and argued for a crucial change of heart of the system, changing from a relatively well state-monitored and more or less balanced, even trade to a perversion of commercial exchange based largely on offences against Chinese laws and habits. It is my thesis that this forfeiture of Chinese control over the Canton trade is indeed an important symptom of disease. Something was going wrong for the Chinese, but what?

Among many others, Jan de Vries has pointed towards the importance the China-trade had on the English and European society:

"*The influx of colonial goods was no marginal phenomenon. It reorganized the structure of meals and the timing of meal taking; it attracted poor and remote householders to retail shops, the only source of these goods; it increased the utility of cash income, the only way to acquire these goods; and it fundamentally reoriented the fiscal regime of England, and to a lesser extent the Netherlands and France, as they learned to levy import tariffs and excise taxes on commodities exhibiting such high income elasticities of demand.*[437]

Thus, when European silver stimulated and commercialized the Chinese economy, parallel tea and other "exotic" goods might have had a similar, but probably not an evenly important effect on Europe. One might ask if Europe's economic performance of the 18th, which Goldstone believes to be more aptly termed an *efflorescence* than a revolution,[438] and the Industrial Revolution during the 19th centuries, would have emerged without Asian stimulus. Even though it is not the aim here to deal with this question, there is one main difference between tea entering Europe and silver going to China: once the flow of tea from China to Europe was started, it did not stop until Europe wanted it to stop as Chinese tea was replaced by tea from India in the second half of the 19th century. However, the stream of silver flowing into China, about the only purpose Chinese merchants engaged in foreign trade for, did stop, and was replaced by opium somewhere around 1800, as shown earlier.

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[437] Jan *de Vries*, The Industrious Revolution. Consumer Behavior and the Household Economy, 1650 to the Present (Cambridge repr. 2009) 163-64.

[438] See Jack *Goldstone*, Efflorences and Economic Growth in World History. Rethinking the "Rise of the West" and the Industrial Revolution. In: Journal of World History Vol. 13 No. 2 (Fall 2002), 333, 353-359.

For this, I further agree with Frank who claims that it was silver that played a key role in this puzzle. As I have shown in the previous chapters, silver was indeed the crucial item to enable Sino-British commerce. It was the Hong merchants' commercial essence of life and became the blood in the veins of Lingnan's commercial life, as well as the nourishing food to let it grow. However, by the end of the century, the system of paying tea by silver had ended, and at the beginning of the 19th century opium had taken silver's place to pay for the precious drink. According to Frank, American silver bought Europe into the Asian economy. So far, I agree. But, taking a step further, I would say that American silver bought China *out of* a changing global economy. An important factor for this mechanism was indeed, but not solely, opium.

As Man-houng Lin points out, the increasing British use of opium to replace silver was caused by a decrease of global silver and gold production during the first decades of the 19th century, caused by the "*inability of local governments to support the silver-mining industry due to the Napoleonic Wars of 1796-1815 and the Latin American independence movements of the 1810s-1830s* […].[439] These global effects of revolutionary events are indeed mirrored directly in Sino-British exchange patterns, as the British did increasingly turn to Indian cotton and opium to substitute silver as it was shown earlier. Then, "*the worldwide decrease in gold and silver production in the first half of the nineteenth century not only decreased the arbitrage of silver in China but also accelerated the importation of opium.* […] *In other words, the British could not find enough silver to pay for tea and silk and ended up using opium as the medium of exchange for them."*[440]

It was the state of the world market and the function of opium that became crucial for the development of southern China's markets. Man-houng Lin shows that tea and silk exports from China stagnated, despite being on a very high level during the first half of the 19th century, while opium imports grew, especially after ca. 1820.[441] Why did tea and silk exports stagnate? Three possible explanations may be: first, trade and demand themselves were limited by the revolutionary and martial events Europe witnessed due to the French Revolution and Napoleonic Wars. Second, if demand was not limited by those occurrences, maybe the decreasing supply of precious metals hindered exchange. When less silver came to China, this might have prevented a growth of output since silver was very crucial to connect producers and exporting merchants with one another. Maybe a limited supply of silver did limit tea and silk output, which then in turn again limited the influx of silver, meaning that

[439] *Lin*, China upside down, 108.
[440] Ibid, 109.
[441] Ibid, 88, 97.

there might have been a reciprocal connection between silver input and tea and silk output. Third, there is the option that the European market was simply saturated with the amounts of tea and silk being imported, to the extent that an expansion of imports would not have been reasonable. Pomeranz indicates that English tea consumption did not grow significantly between 1800 and mid-century.[442] However, it is not clear if that was a reason for the stagnating imports or a sign of the same. Whatever the reason was, we can simply conclude that the situation of Europe's market for Chinese goods was complicated and not providing options or incentives for an expansion of trade. This likely caused tea prices in China to deteriorate.[443] At the same time and increasingly after the abolition of the EIC's monopoly of the China trade, the private British opium trade from India to China flourished, likely due to growing Chinese demand, fostered by - and fostering - the commercialisation of the economy at the beginning.[444] This situation of global markets, a reluctant European market for tea and silk, and a very demanding Chinese market for opium, then led to the phenomenon of silver flowing out of China during the first half of the century. During 1808-1856 about twice as much silver left China as had entered the empire during the entire previous century, or about a fifth of all silver circulating in the Chinese economy![445] So, unlike the periods of a weak European market for tea and silk during the 18th century which would have left China's economy and silver supply at a status quo, at the beginning 19th century China's growing integration into and involvement in a multi-layered global network of exchange caused its former positive balance of trade to become negative and silver to flow out of the economy. China concretely experienced a significant stagnation of its exports or its export markets, while it itself had integrated into international trade due to growing demand – or consume fashion – for some of the goods it imported, particularly opium on which it now spent a good deal of the money it had earned from tea exports. Global trends in trade did create an echo on the Chinese culture, like the growing socialization and consumption of opium, especially before the mid-19th century. These mechanisms and trends, the integration of Chinese consumers into international patterns of exchange, did bring the Chinese economy into trouble. When the major – maybe even monopolistic - supplier of silver for the entire Chinese empire, the British market, greatly lowered its imports of silver in the context of a global conjuncture, and secondly, even increasingly re-earned the silver it had invested in China, this silver-driven economy was weakened to a very large extent. Commodity movements within China now changed directions. Silver, instead of flowing upriver from Canton into the

[442] Pomeranz, Great Divergence, 117.
[443] *Lin*, China upside down, 106.
[444] Ibid, 92-94.
[445] Ibid, 95, Table 2.9, 114.

provinces and to petty producers, now went downriver into the hands of opium merchants, whose imports went the other way into China.[446] Those movements of the opiate into China now used the same veins that sugar, cotton, tea and silver had created and perfected from the 18th century onwards. Due to the high commercialisation and marketization of the production of tea and silk in particular, the trade was highly dependent on silver. Without sufficient silver payments, petty producers would not be able to purchase their subsistence food on the market, and further, would be forced to abandon cash cropping for the benefit of returning to subsistence production. Consequently, hinterland food producers would lose the coastal market for rice that they had specialized in, thus diminishing mercantile interprovincial networks. Moreover, the decreasing amounts of silver greatly affected the silver-copper ratio. Silver became more and more expensive expressed in copper during the first half of the century. When silver became scarcer, its price measure in copper rose significantly. Whereas a tael of silver cost 1.250 *wen* in Fujian in 1824, the price rose to 1.300 five years later, to 1.600 in 1843, and to 1.900 in 1848! In general, the copper-silver ratio in south China is said to have been over 2000 *wen* per tael during the 1840s, almost twice as much as it had been during the 18th century! Moreover, this movement of silver prices seems to not have been limited to the southern Chinese provinces, but was a national phenomenon, with nationwide prices rising from some 1.500 *wen* per tael at the beginning '40s, to a rate 2750 for one tael during the mid-50s.[447] Thus, peasant life, even in Jiangsu, Zhejiang, Sichuan and Jiangxi provinces was heavily influenced by silver and respectively its outflow. Since taxes had to be paid in silver and the prices for silver were almost doubling, one might say that the real average tax burden might have doubled in the course of the first half century.[448] The outflow of silver therefore more or less directly led to social unrest and crime among the poor population. A mid-century observer stated: "*With the price of silver increasing daily, silver is more difficult to obtain. Peasants suffer from the fact that the copper they earn as their wages is as worthless as dirt."*[449] Additionally, this did not only affect the poorer end of the society, but landlords, too, who had similar difficulties to pay taxes as their own incomes declined drastically, leading to the impoverishment of even the wealthier and to the abolition of land due to the inability to pay land taxes.[450]

"*When the silver outflow took place, both silver ingots and silver dollars were sucked abroad. Since people in peripheral areas had less silver but still had to pay rents and taxes in silver or use silver to purchase necessities from distant markets, they suffered more from the*

[446] For a more detailed description see *Lin*, China upside down, 90-94.
[447] See Ibid, 117-124, esp. 121-124.
[448] See also: *Mann Jones* and *Kuhn*, Dynastic Decline and the Roots of Rebellion, 130; *So,* The South China Silk District, 58ff.
[449] Zuo Zongtan, Govenour-general of Fujian, 1851. Quoted in *Lin*, China upside down, 125.
[450] See *Lin*, China upside down, 126-127.

*exorbitant silver-copper exchange rate. Most poor people as well as merchants, landlords, scholar-officials, and the government in both rural and urban areas were impoverished. As the silver problem penetrated to every corner of the empire, vagrancy, riots, political impotence, and moral corruption increased in tandem with this crisis.*"[451]

"*Popular reaction to the deflation and the rise in real tax rates broke forth in widespread tax-resistance movements during the 1840s and 1850s, particularly in the central and lower Yangtze valley. Leadership often came from the lower elite* […]. *Forms of resistance varied widely, from litigation, to mass petitions, to mob violence. Riots led occasionally to open revolt and the seizing of administrative cities.*"[452]

Consequently, the activity of the market was greatly influenced. Chinese junk trade between Amoy and Southeast Asia declined about 40% due to a lack of capital, and so did Chinese maritime coastal trade. Interior market activity for agricultural products decreased significantly.[453] As an outcome of this economic crisis, the state's tax income diminished visibly, weakening the government's ability to launch countermeasures.[454]

Regarding this, it is very likely that a decreasing amount of silver available within the south Chinese economy did have serious destabilizing effects on the economic environment and social order, throwing the country into chaos and rebellion. It is noteworthy that only between the 1850s and 1870s China experienced a series of rebellions.

Only after the 1850s, China's defeat in the Opium War and the further opening of the Chinese market again enabled rising export numbers of tea and silk that could meet the silver outflow caused by opium, and generate an inflow of silver sufficient to give the economy the option to recover.[455]

It is this story of silver in China just told that I think might be crucial in understanding why China's global dominance in economic, as well as military terms, fell after 1800. "*China's currency system was unusually dependant on the world economy* […]",[456] as Lin expresses. The empire's reliance on the input of foreign silver, becoming very important for, and one of the reasons of the growth of its regional economies during the 18th century, is more than striking. The overall Chinese economic crisis of the first half of the 19th century was a consequence of this reliance or dependence, and China became a convict of global commercial trends and the victim of such fluctuations. Again, the European market for tea and silk proved to be crucial for China's silver supply, but now another factor had been born

[451] *Lin*, China upside down, 116.
[452] *Mann Jones* and *Kuhn*, Dynastic Decline and the Roots of Rebellion, 131.
[453] *Lin*, China upside down, 126, 128.
[454] Ibid, 133-136.
[455] Ibid, 106.
[456] *Lin*, China upside down, 30.

and integrated into what before had been a quite bi-polar pattern: the emergence of a domestic market for foreign goods and its integration into international exchange. This emergence and growth of domestic demand for opium in particular, had been a consequence of the intercultural contact and commerce between the Europeans and the Chinese at Canton. This had to some extent slowly diffused some cultural habits into the local societies, which in the form of smoking opium spread accelerative among the entire empire, enabling the outflow of silver out of the large economy of China. Even so, these crucial impacts the outflow of a fifth of silver cash had on the economy remains striking. To only consider it an economic, trade related issue seems implausible to me. The limited availability of silver alone seems not to be the sole problem causing social unrest and impoverishment among the population due to a declining production, output and profit. The main problem was the tax burden, payable in silver, as we have seen. Thus, it was the relation between copper earnings and silver taxes, or the high prices for silver, doubling the real pressure of taxation that drove people into ruin. It was the Chinese tax system and the government's inflexibility to recognize this. Despite the great rise of silver prices in copper and the emerging rise of the real tax burden, there were no official countermeasures or reactions at all. If there had been some efforts to reduce taxes or to allow taxes to be paid in copper, commodities or even to issue bonds, payable when silver prices would have recovered, the effects of silver flowing out of China might have been eased to a very great extent. Certainly, this is not the point to precisely discuss which monetary or currency policy would have been able to relax the economy's dependence on silver supplies for a short or medium term. I think the crucial problem for the largest part of the population was not directly the growing scarcity of silver, but rather an inflexible and ponderous fiscal and monetary policy. It was the state's fiscal order, not reacting to economic trends at all, that caused the crisis. The stagnation of sales and the simultaneous rise of real tax burden through silver inflation were of greatest importance for the population. If one had loosened the state's requirement to receive taxes in silver for the benefit of other means of payment, the silver crisis might have not had such a huge impact on China's social order. For that, this crisis was rather a crisis of fiscal management and a sign of the state failing to recognise economic development, thus bringing about a social crisis. For this, the Chinese empire proved to be incapably governed and unable to answer developments its integration in a global trade system had brought.

Still, the question remains why Chinese Emperors, governments and politicians did not recognise this development. Indeed, the Chienlung Emperor's statement that his "[…] *Empire possesses all things in prolific abundance and lacks no product within its own borders. There*

*was therefore no need to import the manufactures of outside barbarians in exchange for our own produce*"[457] is simply not true. As we have seen, China did need silver unless no fiscal changes of tax payments were to be issued. Why was the Emperor not aware of this, thus supporting and fostering trade to secure its empire's supply of the precious metal or reforming the fiscal system?

The answer might lie in the Emperors' notion of the Chinese culture, state, and economy, which greatly differed from the one dominating Europe. A great China student of the 20th century, John King Fairbank, has analysed the system of Sino-European relations during the 18th century very closely. He has argued that these relations have to be interpreted in the context of an age-old Chinese way to arrange the contact to foreign cultures, the tribute system. According to Fairbank, this system was a "*natural expression of Chinese cultural egocentricity*",[458] and based on a notion of a relation between suzerain, China, and vassal. In this context, trade was conducted in a form of tribute. Foreigners coming to China would send a tribute mission to the emperor acknowledging him as their sovereign and Chinese culture as superior, and thus subordinate themselves to a Chinese overall domination of the world. In turn, the emperor would reward this by including those foreigners into his empire as a "*tender cherishing of men from afar*",[459] and letting them share the benevolence his subjects enjoyed and granting commercial privileges. In effect, this kind of relation did benefit both sides; by being acknowledged by foreign nations, the Chinese emperor would legitimize his heavenly mandate, and by subordinating to this reign, foreigners were allowed to take a share of China's wealth through trade.

Consequently, trading with China during the 18th century would always be regarded as an expression of subordination and tribute, "*foreign trade developed and grew* […] *within its ancient tributary framework.*"[460] This Chinese notion of foreign trade might be very crucial for the relation between European nations and the Heavenly Kingdom since it contains a noteworthy disproportion. Europeans did not come to China for the purpose of subordinating themselves to the Chinese emperor, and they would never have regarded their trade as an expression of that. While Euro-Sino trade grew throughout the 18th century and slowly but steady integrated China into changing patterns of world trade, the old habit of considering trade as part of the tribute system did have an entirely contrary effect on the Chinese interpretation of its foreign relations. With trade growing during this century, the government must have viewed this as a very positive time for the empire. Indeed, Fairbank argues that the

[457] Quoted after E. Backhouse and J. O. P. Bland, *Annals and Memoirs of the Court of Peking* (Boston 1914), 322-331, http://www.wellesley.edu/Polisci/wj/China/208/READINGS/qianlong.html (31.10.2012).
[458] *Fairbank*, Tributary Trade and China's Relations with the West, 129.
[459] Ibid, 133.
[460] Ibid, 139.

growth of Euro-Sino trade brought about a growth of inner Asian trade, too, which still was mostly handled in the context of tributary missions. "*Thus the new western trade with Asia indirectly stimulated the old-style tributary activity of countries like* […] *Siam, and this strengthening of the ancient tributary forms, through which foreign contact continued to be mediated, left the scholar-officials of China intellectually blind to their danger*."[461]
As he puts it in a nutshell, the Chinese were "[…] *lulled into a false sense of security by this increased barbarian submissiveness. Possibly this prostitution of the tributary system for commercial ends served to confirm the Chinese idea of superiority just when it was most urgently necessary to get rid of it.*"[462]
Since Europe did not have the power to break China's position, European merchants did to some degree use the traditional tributary way to ensure they were allowed to trade. The non-challenging of the Chinese world view and habits of foreign relations blurred the government from realizing to what extent its economy and society had been influenced and stimulated by foreign impacts and what meaning its trade with Europe had for the world economy. It was an outcome of this drastic imbalance between Europe's and China's way of interpreting trade and the purpose why Europeans came to China, that enabled developments that in the long run culminated in the Chinese economic crisis of the first half of the 19th century.
I do agree with Fairbank's interpretation of events. The Chinese state only recognised its interweaving with a global trade network as this network drained the empire of silver. The ancient-old habit of cultural *sinocentrism* and the related traditional model foreign relations were oriented towards and contingent on, made it impossible for Chinese leaders to acknowledge the changes on the world map and within its own economy. China's defeat in the Opium War greatly shocked this worldview and threw it into chaos. Even then, one did not know exactly against whom one just had lost this war.[463] Understanding this phenomenon is a very crucial step to understand Chinese history before 1840. It further explains to some degree why the state never really supported foreign trade, but rather hindered and limited it. As mentioned earlier, the transport of tea to Canton or the amount of silk allowed to be exported was always limited by laws or other official constraints. The state did nothing to prevent any crisis of tea, silk cultivation or of mercantile structures, like the bankruptcy of a Hong. In fact, I think the very limitation of the system of foreign maritime trade was very harmful, both in a geographical term, and in the regard of the number of people who were allowed to participate in it, originally installed to keep control over foreigners and monitor

[461] Ibid, 149.
[462] *Fairbank*, Tributary Trade and China's Relations with the West, 145.
[463] Ibid, 147.

those “tributaries”. One might ask if it would have been so easy to replace silver with cotton and opium for British merchants if the Hong merchants were not indebted to them and forced to agree upon such contracts. As we have seen, the Hong’s indebtedness was an outcome of them being overcharged by the volume of trade Europeans achieved, especially after the 1750s. If there had been more Chinese merchants and maybe even ports licensed for foreign trade, maybe the distribution of commercial power between Europeans and Chinese would have been different. It is a striking historical fact, that it was never the Hong merchants, licensed monopolists trading in a good (tea) they had a worldwide monopoly in, who really defined purchase prices for their goods sold. It was the official notion of trade, being regarded as a diplomatic act of submission answered by gratitude and benevolence, expressed with the permission to purchase goods that was the greatest obstacle of the Canton System. In the Emperor’s eyes, trade was never conducted for the sake of mercantile profits – earning money – but it was a diplomatic act echoing *sinocentrism*. For this, the state never interpreted the Canton trade as an economic exchange, but as diplomacy. A Hong merchant’s bankruptcy was in a commercial sense nothing to worry about, but a challenge of the Emperor’s foreign relations and thus rather a political topic. From this perspective, a Hong merchant was not so much a merchant as a diplomat, an ambassador, ordered to manage the empire’s political and diplomatic relation to a specific kind of foreigner – Europeans. In this logic, realizing that it was the foreign trade – diplomacy – that was more or less directly connected to domestic economic crisis, might have given Chinese leaders a hard time. If the empire did not need anything brought into it by foreigners, then the outflow of a commodity foreigners used to bring, seems not important at all. Based on this cognition, the state simply might not have been able to realise the connection between foreign trade, silver, domestic taxes, inflation and social unrest and was to some extent stuck in a philosophy of sinocentrism and tributary trade that did not exist the way it had for about 2000 years. Most interestingly, the mistake of underestimating Europe’s trade’s influence on China’s economy was not only made by emperor Chienlung and his contemporaries, but by modern historians, too.

# IV: Sino-British Trade and the Great Divergence

After having discussed the development of the Canton System throughout the 18th century and its impact on southern Chinese regional economies, the last part of this thesis will put the observations of the former parts in context with some of the most recent great theories concerning global economic history and development. Let us first conclude the previous observations. What is the outcome, the quintessence of the previous chapters of this thesis? According to the number of parts, there are three major findings to be listed.

1. From the very beginning of its existence, the Canton System was based on three crucial factors, which maintained a balance of forces necessary to enable trade between very different cultures. These factors were *credit*, *control* and *contraband*. Each of these represented one of the three major parties' basic needs with *credit* serving the Hong merchant's need for information about future purchases, which he fundamentally required to plan and prepare the production and delivery of the commodities from the interior. *Control* was the state's absolutely basic condition to license foreign trade, the Qing's wanted to maintain security and prevent political or social disturbances were certainly connected to their relatively young regime over China. Third, *contraband,* mainly in silver, gold and later opium, served foreign traders as a means to purchase Chinese goods without which, they might not have gathered it. Additionally, illicit trade did provide Hongs as well as officials with another source of income. However, caused by major changes in global trade and global political-geographic relations, foremost the British conquest of Bengal, the balance of these three pillars toppled from the mid-century, ultimately changing the patterns of the China trade from an essentially

   silver-for-tea basis to relying on the country trade's sales especially of on illegal opium. The use of opium sales to earn silver to again purchase tea with was only possible due to the Chinese merchant's unfortunate financially state, which arose slowly in the first half-century and accelerating afterwards. The official limitation of foreign commerce on a very small number of men caused those licensed to being hopelessly overcharged with the financial dimension of Sino-British trade in the 1740s, meaning the business was heavily dependent on foreign loans and advancements. Only through this complicated relation between foreign and native businessmen was the spectacular development of the opium trade possible after circa

1790. Still, it remains striking that it was the agents of the much more powerful and wealthier empire who became financial wards of the merchants of the much smaller European powers.

2. Even though foreign merchants were strictly detached or isolated from the Chinese society and economy, the Canton trade, with all its complications, limits and exceptionalities, was not. Though it was, in a meaning of geographical as well as intellectual freedom a dead end for Europeans, for China, Canton functioned as something like a plug hole functioning in both directions, flushing domestic goods away and silver in. It was the endpoint of a vast, increasing and smoothly working inner-Chinese commercial and transport network, connecting provinces and specialised areas with Canton and each other. True, this network expanded through the influx of foreign silver especially before the last third of the 18th century, fostering division of labour and monetisation within China's provinces. Without the existence and further development of those networks, Europe's thirst for tea would have been much harder to satisfy. Silver enabled especially southern Chinese producers to specialise in (luxury) goods destined for export or high-level consumption by creating and expanding supply-routes for basic goods such as rice to and from the hinterlands. Thus, the growth or decline of foreign trade and growth and decline of domestic Chinese commercial links were closely and reciprocally connected with each other, a decline or growth of one would ultimately affect the other. This can be traced in the history of Sino-British trade after the turn of the century.
3. When the pattern of British and Company world trade significantly changed during the second half of the 18th century, causing a decreasing use of silver as payment for the China trade, and, moreover, a net outflow of silver out of China through opium, this caused a serious economic crisis in the Heavenly Kingdom. Consequences of this drain were inflation, causing a *de facto* doubling of the tax burden due to failed fiscal policy, diminishing the commercial power of China's intra-networks and ultimately affecting national finances thus limiting the state's ability to intervene, then causing famines and social unrest escalating in a series of rebellions and civil wars especially during the first two thirds of the 19th century, making this period a devastating time for the country. It was thus China's (in?)-voluntary integration into a global economy (for silver) and the failure of its government to recognise this that destined its late imperial history.

It is thus this thesis' plea that it was foreign trade that greatly affected China's economic performance since the beginning of the 18th century, playing a key role in global historical development. This view on the following pages will be put into some theoretical approaches to explain global economic history and support this view.

In his path-breaking work about the *Great Divergence*, Kenneth Pomeranz offers a brilliant comparison of especially England and parts of China, arguing for "*a world of surprising resemblances*"[464] before circa 1800 A.D, in which the most developed parts of Europe and the most developed parts of China shared very similar economic conditions and developments before that date.[465] However, unfortunately he fails to offer a satisfying interpretation as to why it was Europe, which broke away from pre-modern *economic laws of nature* and concludes "*there are clearly some situations where a fairly small increment in something makes all the difference.*"[466] I think that Sino-European trade, barely discussed by Pomeranz, does provide some explanations as to why China's position in the world did deteriorate. It is the aim of this chapter to argue, to some extent in a Wallersteinian tradition, that the direct commercial link between England and China was a not an unimportant instrument of the orchestra of forces that brought about and caused the *Great Divergence*. Kenneth Pomeranz himself does not include foreign trade into his great observation, however, his book rather aims to diagnose the relations of global power in ca. 1800 and to finally end the previously dominant *eurocentristic* interpretation of the Industrial Revolution, revolutionizing and expanding the field of discussion from explaining a European economic revolution to explaining global economic development. For Andre Gunder Frank, global trade is the core component of reasoning. He does not only use this to show that Asia was the centre of a global economy prior to ca. 1800, but to explain why Europe outplayed China somewhere around that date: by using American silver resources. He states that, before 1800, "*Europeans still remained a small player who had to adapt to -and not make! - the world economic rules for the game in Asia*" and that it was American silver "[…] *to buy Europeans into the wealth of Asia itself.*"[467] In this perspective, Frank's interpretation of the *Great Divergence* is, akin to and certainly heavily influenced by Wallerstein, something that might be attributed to him being a *global Marxist*.

Another great study about global trade by Ronald Findlay and Kevin H. O'Rourke, recently written, deepens the field's focus on trade and direct intercultural interaction. In their work,

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[464] See the title of the first part of the book. *Pomeranz*, Great Divergence, 28.
[465] See especially ibid, Part One, 29-108.
[466] Ibid, 279.
[467] Frank, ReOrient, 185, 281, see esp. 262-283.

the authors speak of a "[…] *mutual dependence of "Power" and "Plenty"* […]*"*, arguing that "*Politics thus determined trade, but trade also helped to determine politics* […]".[468] While they convincingly argue, too in a Wallersteinian way, that this "doctrine" determined British politics and was a prime factor that brought about the British Empire, this would be to no extent true for the great empire at the other end of the Eurasian continent. However, if one considers that taxes on tea alone between 1835 and 1857 paid on average for two thirds of the entire costs of the Royal Navy, Findlay and O'Rourke do indeed have a point.[469] However, this paper is not about Britain, but China. What is the theoretical outcome of the previous pages?

First, let us take a look at the Wallersteinian interpretation of world history. Wallerstein does not write about trade itself, but about the relations between centre and peripheries, I think trade is the most important function of these relations.

When Wallerstein wrote his most *opus magnus, The Modern World-System*, maybe one of the most important books of the 20th century, he hardly spoke about China, only arguing that it was *incorporated* into a British world economy at some time after the Opium War and that it only came into the rage of Europe's world-economy after and through the incorporation of India.[470] I think that it is a great mistake which Frank to some degree contests, too, by negating a European world economy at all and arguing for a Chinese domination of global trade prior to 1750 or 1800. Starting, what was, according to Wallerstein, needed for an area to become integrated into an expanding European world economy?

"*Incorporation means fundamentally that at least some significant production processes in a given geographic location become integral to various of the commodity chains that constitute the ongoing division of labour of the capitalist world-economy.* […] *A production process can only be considered to be thus integrated if its production responds in some sense to the ever-changing "market conditions" of this world-economy* […]."[471]

Was this the case for China? Yes, indeed! First, We have seen how deeply the state of the European market did influence the export of tea from Canton. Second, even though Wallerstein would define tea as being a luxury rather than a significant product, following Marks's research, I have shown to what degree at least the southern Chinese regional economy was changed and stimulated by foreign demand for tea and especially for silk and, to a minor degree, Indian cotton imports and what effects this had in the 18th and then in the early 19th centuries.

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[468] *Findlay* and *O'Rourke*, Power and Plenty, Preface, xix.
[469] Data taken from *Vries*, Ökonomie des Tees, 57.
[470] Immanuel *Wallerstein*, The Modern World-System. Vol. 3, The second Era of Great Expansion of the Capitalist World-Economy, 1730 - 1840s (Studies in social discontinuity, New York 1988), 167-168.
[471] Ibid, 130.

Second, Wallerstein is wrong by saying that "[…] *the expansion of opium production had no direct links with shifts in production elsewhere in the world economy but was rather a function of the Company's needs in the China trade.*"[472] Indeed, opium was a function of the EIC's needs in the China trade. However, this function was a result of a serious crisis and nearly bankruptcy of the Company after its capture of Bengal. Under British reign, Bengal was increasingly made an opium producer for the Chinese market, now only providing the country trade with supplies sufficient (even more than sufficient) to replace silver to some degree. Still, opium could only be forced into China due to the British advantage in negotiations - with indebted and foreign-silver-depending Hong merchants. The opium trade was the outcome of one of the greatest changes of global power of that time and of the EIC's change from a trading company to a territorial power in India and related to the incapability directly after this conquest to govern the newly won territory. Thus, the expansion of opium production and its use as payment for tea were only created and backed by significant changes of global relations.

Third, the early 19th century silver crisis in China itself was then an effect of a reduction of global silver and gold production, caused by various major political changes in Europe and Europe's South American dependencies. This shows that the Chinese market, at least – or most importantly – for silver was greatly interwoven and connected to non-Chinese, non-Asian but to global events, politics and market situations. The Napoleonic Wars and South American emancipation movements did directly affect China's economy!

Considering all this evidence, I can only strongly disagree with Wallerstein's interpretation of China's relation to a world economy. China was deeply interwoven within a European market as well as a political European world short after 1750 and very clearly around 1800. This integration into the circles of silver, opium and tea had the greatest impacts on China's economic performance from the very beginning of the 19th century and not only from the second half or even end of this period of time. The Opium Wars not the reason for this development but were an effect of China's incorporation into the world economy.

Additionally, China was not merely incorporated by an "*outward ripple of expansion*"[473] first flooding over India and then further to China. I indeed doubt Wallerstein's thesis that China was incorporated much later than India if at all. If Europe's world economy swallowed India around 1757, it did not take it much more than half a century to devour China. Furthermore, for the Heavenly Empire's integration into global economic patterns, South America was at least evenly important due to its production of precious metals mediated into China by

[472] *Wallerstein*, The Modern World-System. Vol. 3, 140.
[473] Ibid, 167.

Europe's demand for tea and silk. Thus, expressing it in Wallersteinian terms, for the relation between Britain, rising to become a core of a European world system and China, deteriorating from a core position of an Asian world system, Britain's relation to the New World, South America, was most important. Thus it was the relation between core and a certain periphery that affected the core's relation to another peripheral area decisively. By connecting America and Asia, Britain served itself impressively.

Or, in other words, the (non-)relation between South America and Asia was most important to world history. It was this lack of a relation between what would become peripheries until the end of the 20th century that only gave an area that was rather peripheral the opportunity to become increasingly more powerful by offering the service to connect the others. Thus, indeed, one might have to expand Wallerstein's theory with thoughts about what importance or effects non-existent relations between parts of the world did have for global development. Counterfactual history might thus be an interesting way to learn about what made the world prior to the Industrial Revolution.

However, Wallerstein seems to be right with his theory about global specialisation, arguing that an area will be - once incorporated - *peripheralised*.[474] As a matter of fact commodities such as, china and porcelain, vanished from the list of Europe's exports from China soon after its manufacture had been invented in Europe in 1709.[475] As a consequence of its growing integration into global economic processes, "*China lost its status as an industrial exporter and was downgraded to a primary producer.* […] *China's primary export of tea undercut China's own industrial business of porcelain*"[476] by fostering Europe's inventiveness to replace china imports by own production. As an outcome of especially British economic expansion, "*China's new exports of tea and silk went mainly to the industrial world, not to the former pan-Asian trading ring countries. On the other hand, China's industrial product market in Asia* [particularly in India] *was lost to the industrialized West. As a result, China was cut off from its old trade base in Asia* […]."[477] Thus, the British capture of Bengal in the course of the second half of the 18th century did indeed have far-reaching consequences on China's export economy, affecting and peripheralizing China more or less ideal in a Wallersteinian model.

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[474] See *Wallerstein*, The Modern World-System. Vol. 3, 130ff.
[475] See Robert *Finlay*, The Pilgrim Art. Cultures of Porcelain in World History (The California World History Library 11 Berkeley/ London 2010), 276-278.
[476] *Deng*, Chinese Maritime Activities, 118-119.
[477] Ibid, 132.

Second, Kevin O'Rourke and Jeffrey Williamson doubt the emergence of a global market prior to the 1820s because there was neither global commodity price convergence nor global competition among goods enabled by a transport revolution.[478]
Challenging this interpretation, Dennis O. Flynn and Arturo Giraldez have argued for a beginning of globalisation with the creation of the global silver market in the 16th century, being the "sin qua non *in terms of the birth of global trade*" and saying:
"*Some products have special properties, and others can be linked to large-scale epidemiological, environmental, and/or demographic ramifications. In other words, restricting inquiry to trade as a "ratio to GDP" (or to some other specific variable) can obscure perception of critical, systemic interactions.*"[479]
Certainly, O'Rourke and Williamson may be right when it comes to competing goods or price convergence, even though Flynn and Giraldez doubt this,[480] still, given the observations made in this thesis, I tend to agree with Flynn's and Giraldez's point. The relative value of silver in China did have such a great impact on the economy, and the respective lack of silver became even more crucial, that it did make China independent and at the mercy of the global silver market. Thus, Frank's thesis that "*The Rise of the West followed the decline of the East*" and that the West rose by "*climbing upon Asian shoulders*"[481] with the help of silver seems to be a very appropriate conclusion. Indeed, China might have been a very powerful and independent economy before maybe 1700 or 1750, however, silver was the empire's Achilles' heel. Once it had started its great intake of silver and *used* it, it became depend on foreign supply.

Conclusive, the *timetable of China's incorporation* into a global and expanding economy seems to greatly differ from what Wallerstein assumed. This process had already started by the beginning of the 18th century, with 1757, the conquest of Bengal, indeed being a very important step, and was almost concluded by the first decades of 19th century, then expressing itself with crisis and the following Opium War of 1839-42. It was this interplay of global market forces and Chinese cultural egocentrism and blindness for this market that greatly influenced Chinese history. A growing European economy and market, fostered and to some extent caused and paid for by Chinese goods did, via those goods and the silver they were paid with, integrate China's economy and create an economic upswing that in turn expressed itself in a growing monetisation or silverisation, and specialisation, of at least southern

[478] See K. *O'Rourke* and J. *Williamson*, When did Globalisation begin? In: European Review of Economic History 6 (2002), 23-35.
[479] D. *Flynn* and A. *Giraldez,* Path Dependence, Time Lags, and the Birth of Globalisation. A Critique of O'Rourke and Williamson. In: European Review of Economic History Volume 8 Issue 01 (April 2004), 90, 103.
[480] Ibid, passim.
[481] Frank, ReOrient, 276-277.

China's economies, which, again, expanded through a growing division of labour into Chinese hinterlands. When the world economy was struggling due to inner-Euro- and Euro-American political emancipation movements, this was felt significantly in China, causing economic crisis and rebellions. Still, the Chinese governments had not identified these strong links with and dependency on a foreign market. This blindness then expressed itself in an economic crisis, leading not only to interior rebellion and civil war, but to war with Britain. One could thus argue that the pan-American independence movements between ca. 1770 and say, 1825, as well as inner-European struggles, the French Revolution and Napoleonic Wars 1789-1815, and the Chinese Taiping Rebellion 1850-1864 were greatly connected to each other, the two former movements to some degree causing the latter.

# Conclusion

Indeed, the Canton trade had the most crucial influence on Chinese history after 1700 and must be interpreted as a keystone of global historical development leading to the *Great Divergence* and bringing about a European or Western world hegemony. It was not small increments between cultures that caused economic diverging; it was the patterns and changes of a developing and expanding global economy in which China was, via silver, greatly integrated. Moreover, the *Great Divergence* or the *Decline of the East* was to some degree caused by the global commercial relations between East and West. Changing patterns of world trade were the *force* and not a consequence of political and economic change of the world before the 19th century. Trade had serious impacts on involved parts of the globe and China was heavily involved in and influenced by an evolving globalisation of trade. We cannot think of China as an isolated, self-sustained nation anymore once it was penetrated by Western commerce, culture etc. after 1840.

As Western economic hegemony is called into question by Asian powers and will now be the most important global topic of the 21st century, this thesis has doubted the view that China has been an unchallenged, unaffected empire before the Opium War. As Asian powers now challenge European, American and Western world predominance, Europe it must be remembered did the same against Asia's prime position in the world through commercial relations during the 18th century. The roots of global power relations change and their *reOrientation* thus lie way back in the 1700s and are to be connected with names like Cai Hunqua, Tan Suqua or Beaukeequa. During this period, trading with Europe led to China's downgrading and loss of world hegemony. Today, it might be argued it's on its way back to the top rank. Thus, 21st century and 18th century developments might be closely related, being the respective end and beginning of a circle of Western economic upturn or Asian downturn. History is not a one-way process. The world might get back to normal in a millennia-long-run perspective. Still, the beginning of this circle has brought the most important changes humanity might have experienced during the last 10.000 years or so. The generation of the present author might have the privilege to experience what news the return of Asia will bring to the world.

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# Curriculum vitae

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## Ausbildung

| | |
|---|---|
| seit 2007: | Studium der Geschichtswissenschaften (Diplom), Universität Wien |
| 2007: | Allgemeine Hochschulreife |
| 2000-2007: | Domgymnasium zu Verden (Aller) |
| 1998-2000: | Schule am Lindhoop, Kirchlinteln; Orientierungsstufe |
| 1994-1998: | Lintler Geest Grundschule Bendingbostel |

## Wissenschaftliche Tätigkeit

Juni 2012: Mitglied des Forschungsteams zur Veröffentlichung des Datensatzes der *Wiener Verzehrsteuer*:
F. Hauer, S. Gierlinger, C. Nagele, J. Albrecht, T. Uschmann, M. Martsch, Die Wiener Verzehrsteuer. Auswertung nach einzelnen Steuerposten (1830-1913) (Social Ecology Vienna, IFF, Alpen-Adria Universität Klagenfurt 2012)
(http://www.uni-klu.ac.at/socec/downloads/WP134_webversion.pdf)

# Abstract

Die vorliegende Diplomarbeit mit dem Titel „The Canton System and the Great Divergence. Sino-British Trade ca. 1700 – 1800.“ beschäftigt sich mit den interkulturellen Handelsbeziehungen zwischen Großbritannien und China im 18. Jahrhundert. Die rezente Forschungsliteratur, die „Great Divergence“-Debatte, vertritt die Meinung, dass Großbritannien China irgendwann zwischen 1750 und 1850 wirtschaftlich „überholt“ hat und in der Folge als erste Region der Welt modernes Wirtschaftswachstum generierte. In globaler Perspektive hat dies zur Frage geführt, warum dieses in England, in Europa, und nicht in Asien, in China entstanden ist. Seitdem haben die Forscher dieser Debatte und vor allem die Mitglieder der „California School“ weitreichende Untersuchungen und Vergleiche zwischen England und China aufgestellt, um herauszufinden, was dem chinesischen Reich „fehlte“, um eine Industrielle Revolution zu entfachen. Diese Vergleiche haben vor allem eins festgestellt: *erstaunliche Gemeinsamkeiten* in sehr vielen Sektoren. Der vorliegenden Arbeit liegt im Kontrast zu der zeitgenössischen, vergleichenden Arbeit der Historiker der Ansatz zu Grunde, dass der Vergleich ein Mittel ist, Unterschiede und Gemeinsamkeiten, aber nicht *Kausalzusammenhänge* festzustellen. Der komparative Ansatz der „California School“ lässt die Untersuchung von tatsächlicher Ereignisgeschichte auf globale Entwicklung vermissen. „The Great Divergence“ wurde bisher nicht, oder eher unzulänglich, mit der Geschichte des Handels zwischen Großbritannien und China verknüpft. War der Handel in Kanton wirklich so stark reglementiert und limitiert, wie die Forschung bisher angenommen hat? Welche Auswirkungen hatte dieser Austausch auf die Chinesische Wirtschaft und war dieses Handelssystem wirklich nur ein bipolares zwischen London und Kanton? Vor einem globalgeschichtlichen Hintergrund bzw. der Frage, wieso die Industrielle Revolution in Großbritannien und nicht in China aufgetreten ist, werden die Merkmale, Funktionen und Limitierungen des „Canton Systems“ analysiert und dessen Geschichte in Kontext zu globalen als auch spezifisch chinesischen Ereignissen und Entwicklungen gestellt. Ziel dieser Arbeit ist es, anhand ereignisgeschichtlichem und wirtschaftsgeschichtlichem Material, die Perzeption sino-britischer Handelsbeziehungen von einer bloßen „silver for tea – and that’s it“ - Interpretation loszulösen und zu argumentieren, dass dieser Austausch durchaus eine beträchtliche Rolle beim Niedergang des Chinesischen Reiches im 19. Jahrhundert gespielt und damit nicht zu unterschätzende Bedeutung in der Weltgeschichte inne hat.

## English Abstract

The present thesis entitled “The Canton System and the Great Divergence: Sino-British Trade ca. 1700 – 1800”, submitted for the Degree of Magister of Philosophy, aims to analyse the intercultural trade relations between Great Britain and China during the eighteenth century. According to recent literature the field of students agrees that the former outran the latter in economic terms sometimes during this period, leading to the Industrial Revolution in Europe. Seeking to answer the “Why Europe?”-question, scholars, most important those belonging to the so-called “California School”, have engaged in comparing both regions in greatest detail to asses what China was “missing” to develop modern economic growth. This research has been of greatest benefit for the state of the arts, conceding *surprising resemblances* between both empires in most important sectors. However, it is the basic assumption of this thesis that comparing things is fruitful when aiming to determine historical differences and similarities, but it is not able to diagnose causality. For this, the comparative approach which has been most popular during the last decade misses to outline the history of events to explain or understand global development. Consequently, this work’s approach is to explicitly analyse Sino-British trade relations and their impact on the Chinese economy. Was the Canton trade really as restricted and limited as especially British literature has argued? Was the Canton trade only a British-Chinese bipolar exchange? Did it have any impacts on the economy beyond Canton, and if so, which changes did it cause? It is the explicit aim of this thesis to argue that these commercial relations were much more than simple “silver for tea” exchanges and that they had most important impacts, that they might even have been the crucial keystone of the decline of the Chinese empire in the 19$^{th}$ century. To support this, the commercial character and functions of the Canton trade ca. 1700-1800 are closely analysed and put into context with global as well as Chinese developments of that period.